# Consumer Industry

## Middle Market Deal Activity & Outlook

**Mergers & Acquisitions** **2023**

## M&A Remains Resilient Amid Inflationary Headwinds

**Sector Insights**

Beauty & Wellness
Convenience Stores
E-Commerce
Food & Agriculture
Home Goods
Outdoor Recreation & Enthusiasts
Pet & Animal Care
Vehicle Aftermarket
Vitamins & Supplements

**Industry Insights**

M&A Overview
Public Market Valuations
Valuation Drivers
Macroeconomic Trends

CAPSTONE PARTNERS

Capstone Partners, a subsidiary of Huntington Bancshares Incorporated (NASDAQ:HBAN), has been a trusted advisor to leading middle market companies for over 20 years, offering a fully integrated range of expert investment banking and financial advisory services uniquely tailored to help owners, investors, and creditors through each stage of the company's lifecycle.

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# Connect with Capstone's Consumer Investment Banking Group

Capstone Partners is the bank of choice for fast-growing entrepreneurs driving changes in the marketplace. The majority of transactions completed by our **Consumer Investment Banking** group are for privately-owned businesses accessing long-term investors for the first time. Our team knows strategic buyers drive the highest valuations and we are razor focused on getting to know each of their sweet spots in mergers and acquisitions (M&A). Using proprietary data, we will work closely with you to prep your company and put you in the ideal position for the best possible outcome.

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**Consumer**

# Capstone-Advised Transaction Highlights

**Full-service golf car & utility vehicles dealer**
FIVE STAR GOLF CARS & UTILITY VEHICLES
HAS BEEN ACQUIRED BY
JLAM

**Contract manufacturer of personal care products**
ActiTech
CRO AND FINANCIAL ADVISORY SERVICES

**Private digital event ticket brokerage**
PRIVATE DIGITAL EVENT TICKET BROKERAGE
HAS RECEIVED DEBT FINANCING FROM
UMB

**Specializes in ammunition development**
KASH CA INC.
LAX
HAS BEEN ACQUIRED BY
FERNANDEZ HOLDINGS, INC.

**Operates Harley Davidson dealerships**
CALCULATED RISK MOTORCYCLE GROUP
HAS BEEN ACQUIRED BY
NAVIGANTOAK

**Provider of premium sausages and meats**
UNCLE JOHN'S PRIDE
HAS BEEN RECAPITALIZED BY
maranon
STAR MOUNTAIN
PROMISE HOLDINGS LLC.

**DTC women's health & wellness brand**
MENOLABS
HAS BEEN ACQUIRED BY
amyris

**Supplier for landscapers and garden centers**
AMERICAN FARMS
HAS BEEN ACQUIRED BY
OSPREY CAPITAL

**Distributor of eggs, dairy, and bakery ingredients**
SIEGEL EGG CO.
HAS BEEN ACQUIRED BY
Rotunda Capital Partners

**Convenience store and gas station chain**
Pride
HAS BEEN ACQUIRED BY
ARCLIGHT CAPITAL PARTNERS, LLC

**Provider of fabric structures**
MAHAFFEY
HAS BEEN ACQUIRED BY
SUNBELT RENTALS
A U.S. SUBSIDIARY OF Ashtead group

**Online retailer of automotive parts**
MORRIS 4X4 CENTER
HAS BEEN ACQUIRED BY
Ecommerce Brands

**Fitness services & supplements brand**
GYMLAUNCH
PRESTIGE LABS
HAS RECAPITALIZED WITH
AMERICAN PACIFIC GROUP

**Specialty jewelry focused on the bridal market**
Robbins Brothers
COMVEST PARTNERS
HAS BEEN ACQUIRED BY
MAIN ST CAPITAL CORPORATION

**Online retailer of jewelry and accessories**
Catbird
HAS RECAPITALIZED WITH
AN UNDISCLOSED FINANCIAL PARTNER

# Awards & Accolades

**2022** INVESTMENT BANKING FIRM OF THE YEAR — THE M&A ADVISOR

**2022** INVESTMENT BANKING FIRM OF THE YEAR — THE M&A ATLAS AWARDS

**2022** INVESTMENT BANKING FIRM OF THE YEAR — M&A TODAY 2022 WINNER

**2021** INVESTMENT BANKING FIRM OF THE YEAR — THE M&A ATLAS AWARDS

**2020** INVESTMENT BANKING FIRM OF THE YEAR — THE M&A ATLAS AWARDS

**2020** MID-MARKET INVESTMENT BANKING FIRM OF THE YEAR — ACQ5 Global Awards 2020

**2020** MIDDLE MARKET INVESTMENT BANK OF THE YEAR — M&A TODAY GLOBAL AWARDS 2020 WINNER

**2020** CORPORATE RESTRUCTURING FIRM OF THE YEAR — ACQ5 Global Awards 2020

**2019** INVESTMENT BANKING FIRM OF THE YEAR — THE M&A ADVISOR

**2019** INVESTMENT BANKING FIRM OF THE YEAR — THE M&A ADVISOR

## 2022 M&A Overview

**-13.5%**
*YOY Deal Volume Decrease*

**$112.8B**
*Total Disclosed Deal Value*

## 2022 Transaction Statistics

**12.4x**
Average EBITDA

**69.1%**
Strategic Buyers

**$218.5**
Average Value

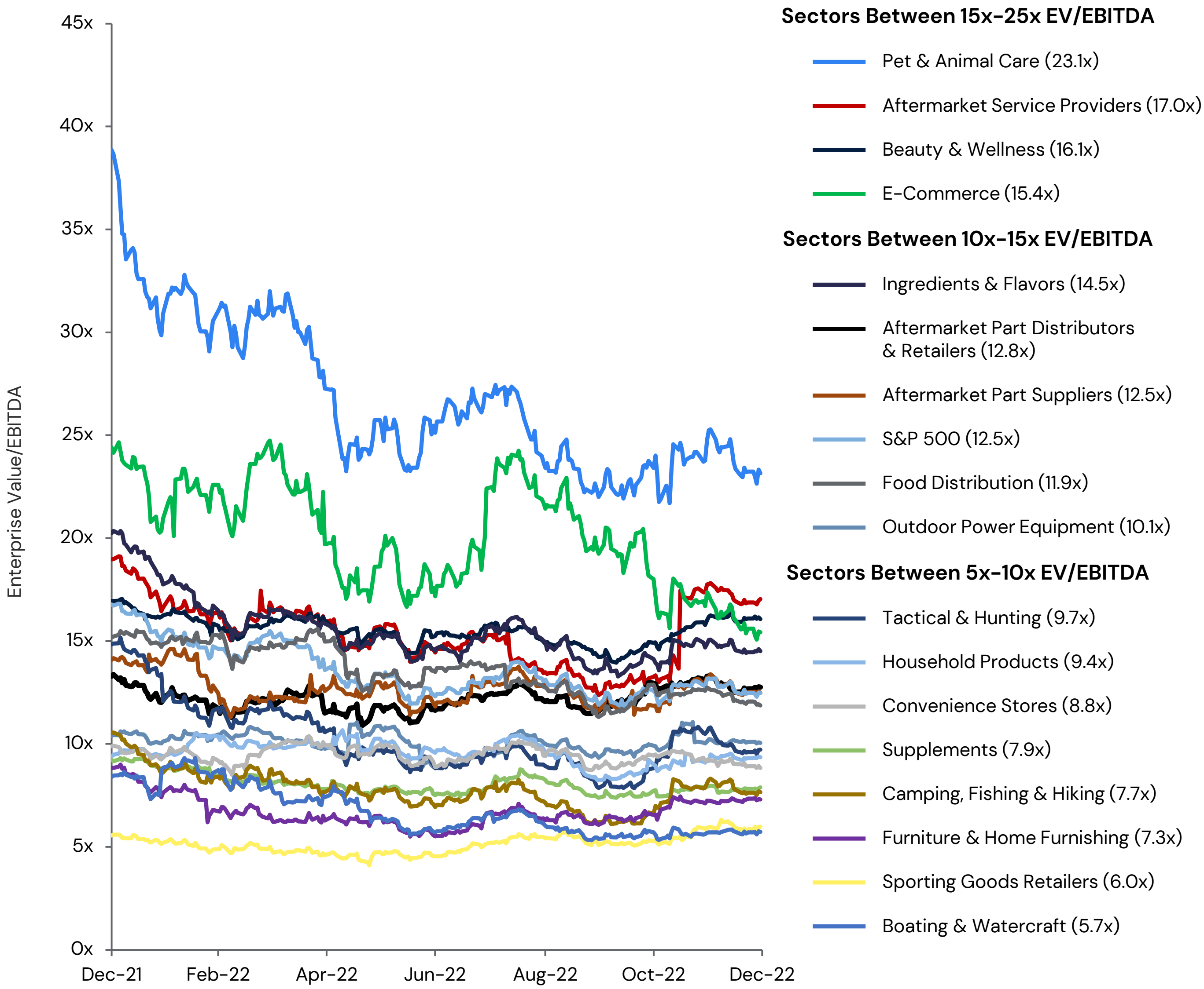
**30.9%**
Financial Buyers

**13.0x**
Average multiple paid by Public Strategics

**10.7x**
Average multiple paid for PE Platforms

*Source: Capital IQ and Capstone Partners*

# Public Market Valuations




*Food Distribution: GCL, PFGC, SYY, CHEF, UNFI, USFD, SPTN; Ingredients & Flavors: GIVN, IFF, DSM, KRZ, SY1, CHR, DAR, INGR, GL9, TATE, BCPC, SXT, CRBN, MGPI, STKL, RSI; Pet & Animal Care: CENT, CHWY, ELAN, FRPT, IDXX, PETQ, ZTS; Sporting Goods Retailers: ASO, GOLF, BGFV, MODG, DKS, ESCA, FRAS, HIBB; Outdoor Power Equipment: ALG, BBD.B, 500530, BC, DE, 7267, HUSQ B, 6326, LOW, PII, SWK, 669, TXT, TTC, TSCO; Boating & Watercraft: BEN, BC, MBUU, MPX, MCFT; Camping, Fishing & Hiking: CWH, CLAR, DII.B, JOUT, THULE, YETI; Tactical & Hunting: AOUT, POWW, AXON, CZG, SWBI, RGR, VFC, VSTO; Aftermarket Service Providers: ACVA, BYD, DRVN, MCW, MNRO, VVV; Aftermarket Part Suppliers: AXTA, DORM, HZN, MPAA, PPG, SNA, SMP, XPEL; Aftermarket Part Distributors & Retailers: AAP, AZO, PRTS, CPRT, GPC, LKQ, ORLY, ID, UNS; Furniture & Home Furnishing: ETD, H24, LZB, PRPL, SNBR, TPX; Household Products: HBB, LCUT, NWL, SPB, TUP; E-Commerce: FLWS, AMZN, ASC, BOO, EBAY, OSTK, VIPS, W, ZAL; Convenience Stores: ATD, CASY, MUSA, TA; Beauty & Wellness: A090430, CHD, CL, COTY, ELF, EPC, IPAR, JNJ, 4452, OR, NUS, REVR.Q, 4911, HNST, PG, TUP, ULTA, ULVR; Supplements: BKL, GL9, HLF, JWEL, MED, WW*

*Source: Capital IQ and Capstone Partners*

**Kenneth Wasik**
**Head of Consumer Investment Banking**

The year 2022 was a transition period and a bridge to what we have witnessed in early 2023. The COVID shock had largely subsided by 2022, replaced by supply chain problems and inflation settling in as a prolonged, uninvited house guest. Normally, this would spell disaster for the Consumer industry. However, the twin panaceas of COVID stimulus checks and greater consumer savings generated by changed lifestyles fueled spending levels into early 2023. Even the all-time wrecker of a good time, inflation, was allowed to participate in the fun. Consumer product companies were able to increase pricing relatively unabated. Walmart (NYSE:WMT), the ultimate pricing cop, simply stood aside and let consumer product companies do as they liked. This benefited dynamic pricing sectors, like Convenience Stores, which captured record fuel margins during this period. The numerous chicken-little economic pundits were left dumbfounded that the U.S. economy didn't spiral into a "hard landing." What we were left with was an artificial equilibrium in the Consumer industry.

So how did Wall Street react? During 2022, M&A volumes in the Consumer space were comparatively healthy. Despite almost every industry declining from 2021's "perfect storm" market, the Consumer industry registered a modest decline at only 13.5%, versus 19.2% for all deals. Said another way, Consumer industry M&A volume has continued at a robust pace, albeit on a more selective basis. Valuations have suffered slightly but are still near historic highs. We like to say, "We are not at the top of the mountain, but we are approaching the summit."

Strategic buyers have held the real purchasing power in Consumer middle markets, comprising 69.1% of 2022 deals. As inflation has placed increased pressure on volumes, strategic buyers have actively looked to acquire growth. Financial buyers, including private equity, have been sidelined by fears of buying companies in a down market and the deterioration of consumer savings. Consumer product companies are often perceived to be more susceptible to economic threats. This sets up an interesting dynamic of pent-up demand being released when economic fears subside. Notably, demand and valuations have remained strong in recession-resilient sectors including Home Goods, Vehicle Aftermarket, select Food segments, Convenience Stores, Beauty & Wellness, and Pet & Animal Care.

Privately-owned companies have become the main driver of M&A sales in the Consumer industry. It is simply becoming increasingly expensive to operate as a smaller private company and to navigate the cost of sourcing materials, staffing restrictions, and changing selling channels. The "baby boom bump" is at its tail end and many owners have looked to cash out while others lack family succession options. Finally, valuations remain high and markets stable—many believe the timing is right for a sale.

Actual versus theoretical EBITDA is increasingly becoming an issue. Given the many new trends impacting businesses, buyers have become reluctant to accept EBITDA add-backs to calculate the valuation of a business. Once acceptable add-backs such as business disruptions, spikes in container pricing, or higher staffing and advertising costs have now brought heated debate. As a result, we have been emphasizing unadjusted EBITDA numbers to our clients.

This market plays to Capstone's Consumer Investment Banking Group's strengths and our ability to provide successful outcomes for our clients. Over the past 12 years, 97% of all our transactions have been executed for privately-owned companies. Of those transactions, approximately 66% were successfully sold to strategic buyers. We remain confident in our ability to close transactions in this market. Please contact us to discuss the above thoughts and how they may impact your business.

# Consumer M&A Remains Steady

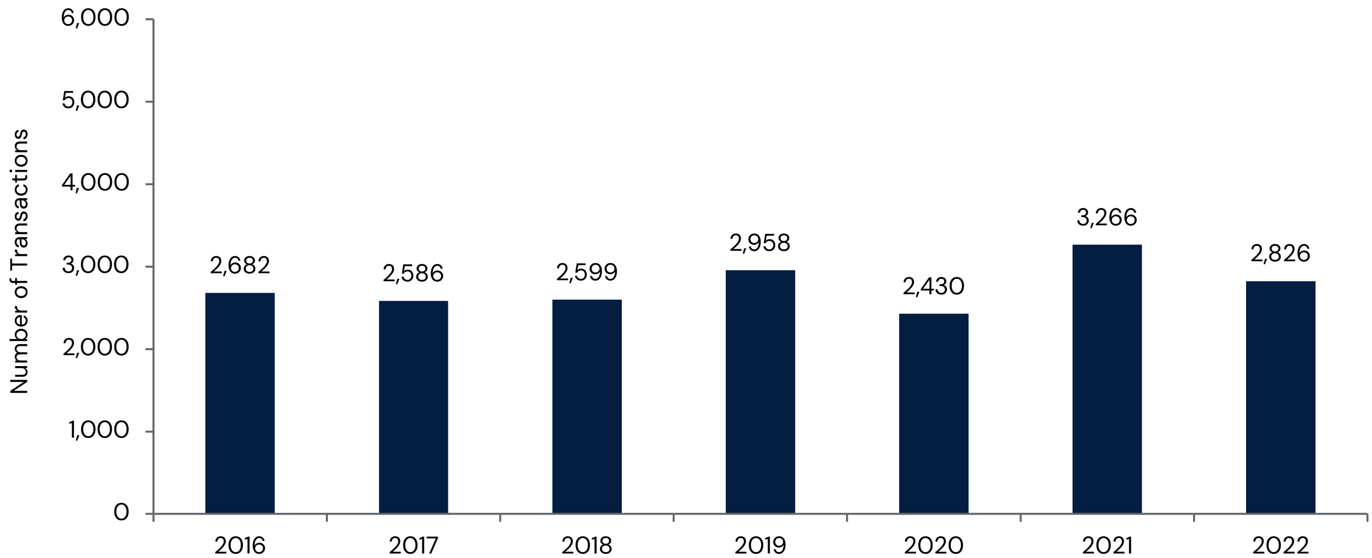
Despite a turbulent economic environment and significant volatility throughout capital markets, M&A activity in the Consumer industry has demonstrated considerable resilience. Transaction volume was not expected to meet the record levels of dealmaking in 2021, and amid a backdrop of elevated inflation, many market participants forecasted a drastic pause in Consumer M&A. However, in 2022, Consumer transaction volume showcased a greater level of defensibility compared to the broader M&A markets. Notably, Consumer M&A volume declined 13.5% year-over-year (YOY), compared to the broader M&A market which recorded a 19.2% fall. Select sectors, including Vehicle Aftermarket and Home Goods, nearly met or exceeded 2021 transaction levels—indicating the fervent buyer appetite that has persisted in certain pockets of the market.

Private strategic buyers continued to dominate transaction activity, accounting for 50.1% of 2022 transactions. Industry participants continued to pursue quality brands and manufacturers to bolster scale, capabilities, and drive operational synergies. As lending conditions have deteriorated, financial buyers have approached M&A with more selectivity, keenly focusing on the defensibility of cash flows and gross margin resilience. Despite more critical sponsor due diligence, financial buyers comprised a healthy 30.9% of 2022 transactions. As sponsors have pursued buy-and-build strategies, add-on acquisitions have continued to flourish, accounting for 18.6% of Consumer industry deal volume.

Consumer M&A activity may continue to face disruptions in the next few quarters as rising interest rates, cost pressures, and recessionary headwinds continue to challenge private business earnings. However, if the Federal Reserve proves adept at mitigating inflation and consumer sentiment improves—leading privately-owned industry players can expect a frenzy of buyers looking to reengage in inorganic growth.

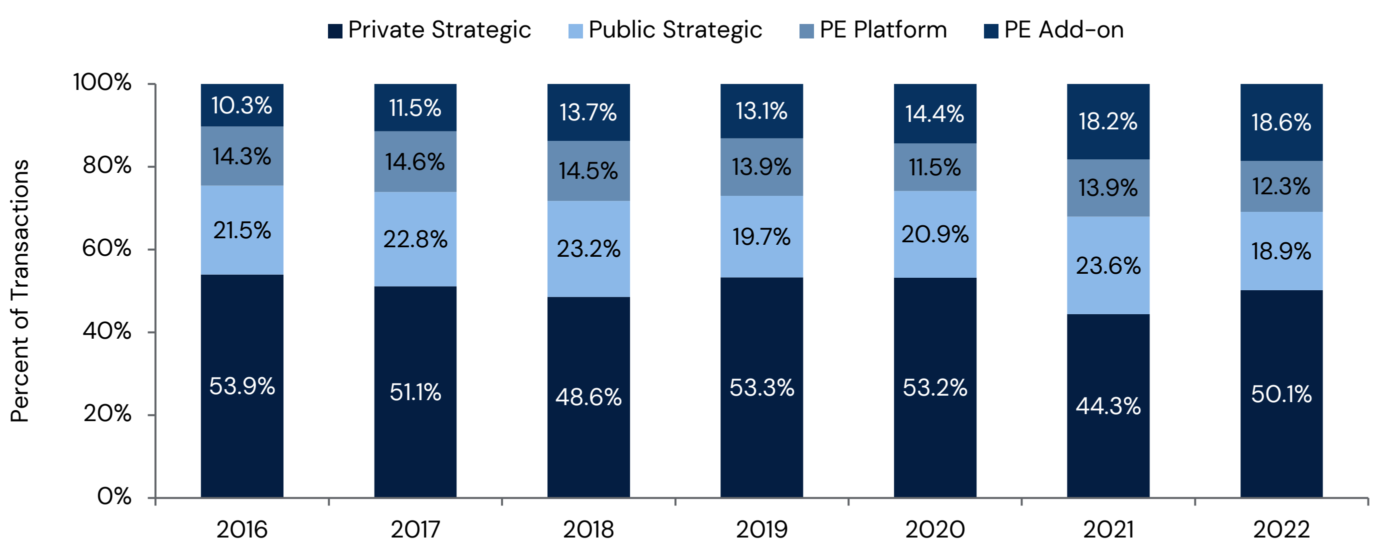
## Consumer M&A Volume Moderates Compared to Prior Year

*M&A volume declined 13.5% YOY but remained healthy compared to historic levels. Transaction volume in 2019 makes for a more insightful comparison, with 2022 deal volume trailing by only 4.5%.*




## Private Strategics Dominate 2022 Transaction Activity

*Private strategic buyers continued to comprise the largest percentage of transactions, accounting for half of 2022 M&A activity. Sponsors have leaned towards add-on acquisitions to bolster sector holdings.*




*Source: Capital IQ and Capstone Partners*

# Average EBITDA Multiple Improves Year-over-Year

Consumer industry M&A purchase multiples remained healthy, despite a YOY decline in transaction volume. In 2022, the average EV/EBITDA multiple amounted to 12.4x which marked a slight improvement over the 2021 average of 12.0x. High-quality companies continued to fetch premium multiples, particularly those that maintained healthy levels of profitability. Targets with promising business synergies have been in high demand as industry players have increasingly sought ways to optimize operational efficiency.

Amid economic uncertainty, buyers have largely moved down market to complete transactions—a dynamic that often bodes well for quality middle market businesses seeking liquidity. In 2022, total disclosed transaction value amounted to $112.8 billion which marks a 39.1% YOY decline. Average 2022 enterprise value also fell, dropping 10.7% YOY. As the market for smaller assets has become more competitive, valuations for middle market players are likely to continue to be supported by healthy buyer appetite.

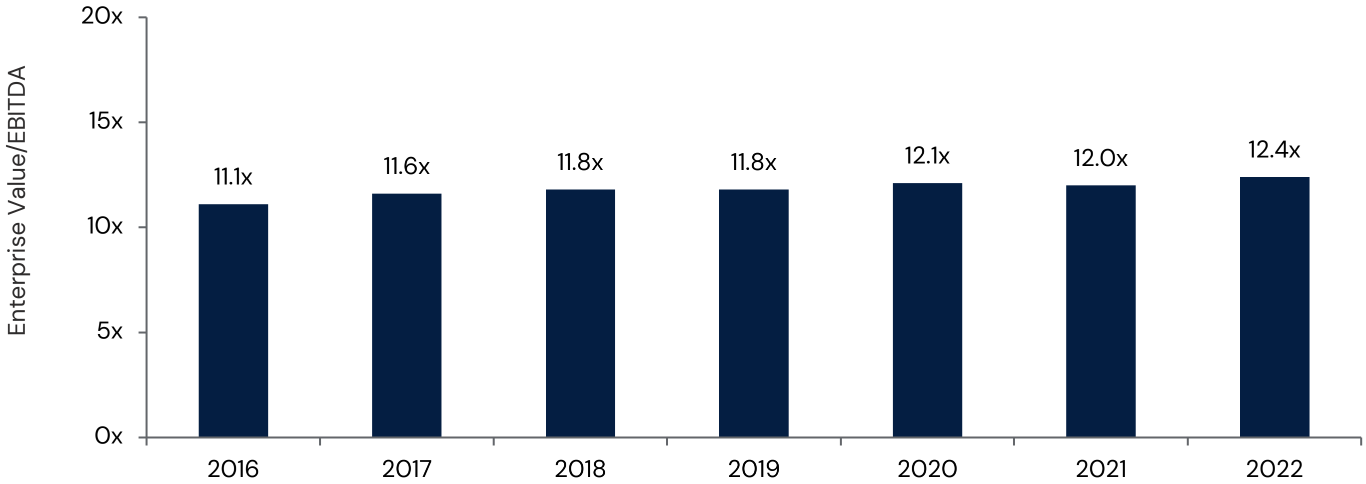
Public strategic buyers have paid the highest average multiples in 2022 at 13.0x EV/EBITDA. Sector players with healthy balance sheets have actively pursued target companies that provide enhanced capabilities, geographic expansion, diversification, or offer earnings accretion. Private equity firms have been more selective in recent months, paying an average of 10.7x EV/EBITDA for platform investments in 2022. The elevated cost of capital has certainly impacted pricing for large-scale purchases by financial buyers as the average senior debt multiple decreased to 2.9x Senior Debt/EBITDA in Q4 2022 for transactions between $100-$250 million in enterprise value, compared to 3.5x in Q4 2021 according to GF Data.®

Moving into 2023, multiples will continue to be pressured by rising financing costs. However, deal activity in 2022 has proved that quality companies have continued to attract buyers willing to pay premiums for the right fit. In the event of M&A market improvement in 2023, elevated competition may fuel higher pricing.



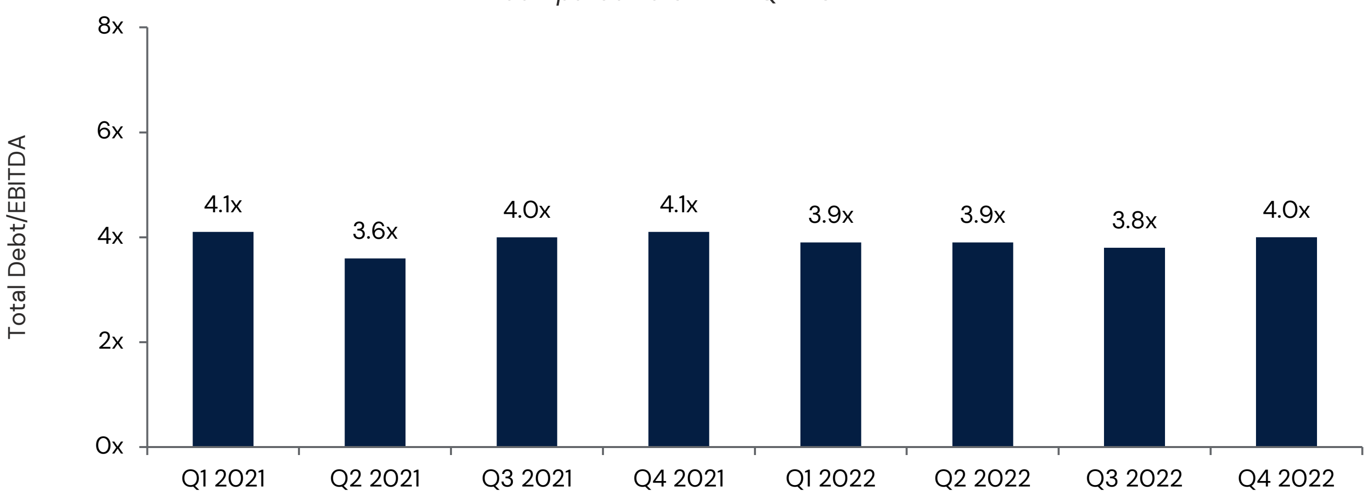
## Average Consumer Industry M&A EBITDA Purchase Multiples

*Average EBITDA multiples surpassed the prior year, standing at 12.4x. Strategics continued to pursue companies offering synergies, while sponsors showcased an appetite for defensible businesses.*




## Average Debt Multiple of Overall Middle Market Leveraged Buyout Transactions

*Overall debt multiples have declined modestly YOY to 4.0x. Deteriorating lending conditions have been most evident in senior debt coverage for deals between $100-$250 in enterprise value, with the average multiple falling to 2.9x in Q4 2022 compared to 3.2x in Q4 2021.*




*Source: Capital IQ, **GF Data®** and Capstone Partners*

# Macroeconomic Backdrop

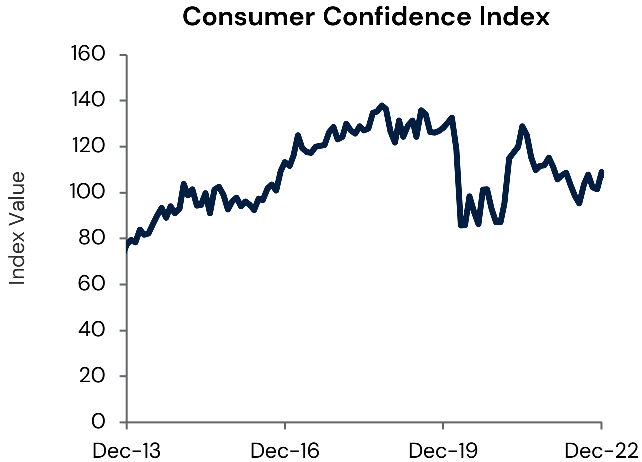
The year 2022 concluded a near decades-long environment of ultra-low interest rates as the Federal Reserve demonstrated an unwavering commitment to quell rising costs. Volatility rippled across public equities with financial markets often searching for any disinflationary sentiment to drive optimism. Labor markets and wage growth proved healthy, complicating the Fed's task to tactically lower inflation while avoiding a monetary policy-induced recession. However, in recent months, the U.S. has begun to witness a softening in prices which has fueled outlooks for a mild, rather than severe, economic downturn. While one of the most anticipated recessions in recent memory may be imminent, fears of a drastic and lengthy downturn seem to have largely been assuaged.

Despite mounting capital markets uncertainty and elevated financing costs, the consumer proved relatively resilient through much of 2022. Notably, personal consumption expenditures improved 9.2% YOY in 2022, according to the U.S. Bureau of Economic Analysis.[1] Robust spending has been supported by healthy levels of consumer income which were partially driven by stimulus measures passed in 2021. However, this boost to consumer finances has waned, evidenced by a 72.8% YOY decline in personal savings in 2022. While consumer belt-tightening may challenge industry participants in the short-term, brands and manufacturers can find comfort in improving economic expectation readings. Notably, the Consumer Confidence Index in December jumped to its highest level since January 2022, according to The Conference Board.[2]

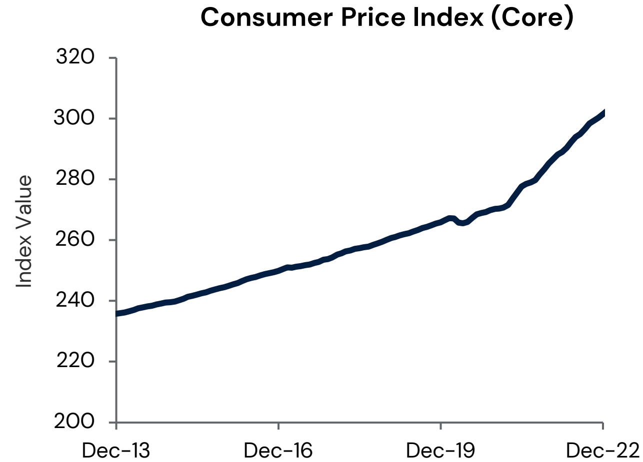
Privately-owned businesses in the Consumer industry have sought to offset elevated input costs through price increases as gross margins have become of paramount importance. For many companies, unit price growth, rather than volume growth has driven sales in recent quarters. While challenged by a difficult operating environment, industry players with high levels of customer retention, recurring revenue, and ample cash positions have continued to capture robust demand. In addition, the pandemic created a renewed focus on health, wellness, and recreation which has fostered consumer stickiness in select sectors. Moving into 2023, brands with entrenched customer loyalty are expected to continue to benefit from repeat purchase behavior.

The U.S. macroeconomic environment in 2022 did not provide the most conducive backdrop for M&A activity. However, many lessons have been learned over the past two years that may provide fuel for a fervent transaction market in 2023. Geographic diversification of suppliers, an adequately leveraged balance sheet, and a focus on the most profitable products and business segments are among the improvements that many privately-owned businesses are carrying into 2023. In past economic crises, M&A activity has typically registered substantial declines. However, as witnessed following the Global Financial Crisis and in 2021 post-COVID, dealmaking has often surged upon economic recovery. M&A volume over the next 24 months may prove to be no different than historic precedent.

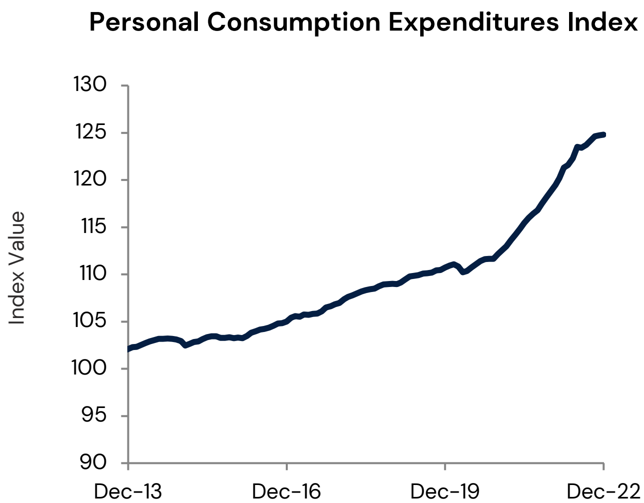
# Macroeconomic Indicators



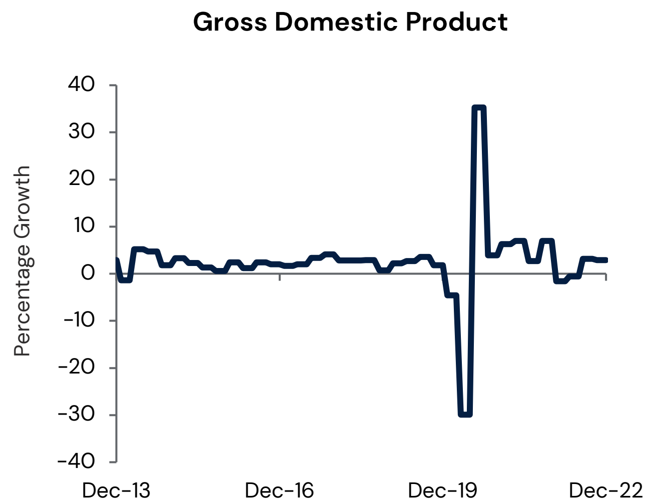

*Source: The Conference Board*



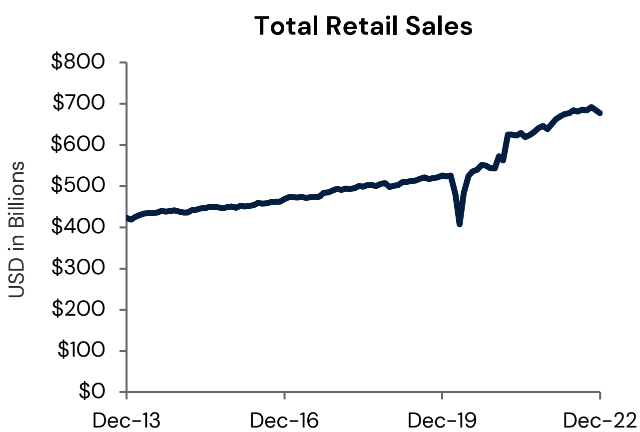

*Source: Bureau of Labor Statistics*



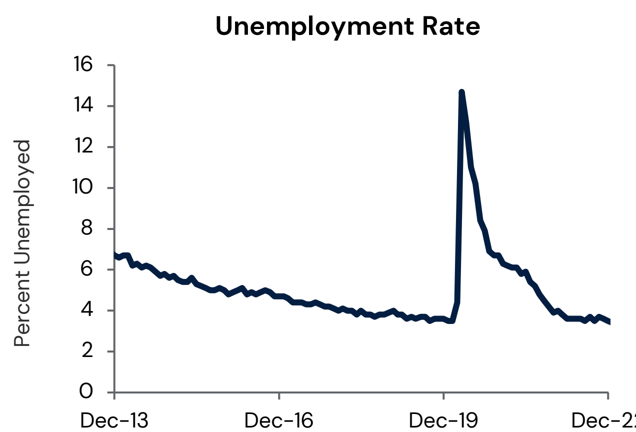

*Source: Bureau of Economic Analysis*




*Source: Bureau of Economic Analysis*




*Source: U.S. Census Bureau*




*Source: Bureau of Labor Statistics*

# Key Themes Driving Industry Activity & M&A

## Trend #1:
## Stickiness of the consumer

The pandemic created a wave of new entrants to many sectors of the Consumer industry, which in turn, fostered strong loyalty to select brands, activities, and services. This trend has continued through 2022. Despite a challenging macroeconomic environment, consumers have remained steadfast in their beauty routines, outdoor recreation pursuits, wellness solutions, and in their pet care purchases.

## Trend #2:
## Persistent levels of inflation

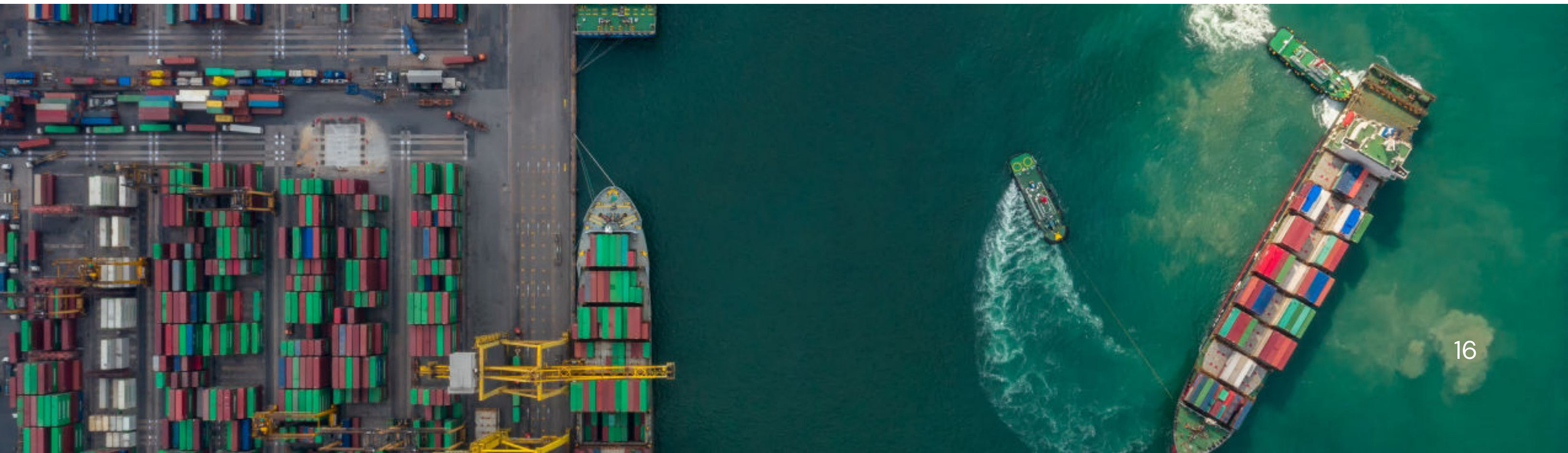
Rising costs have been the key culprit behind headwinds faced by middle market business owners in the Consumer industry. At its peak, the consumer price index increased 9.0% YOY in June and has since moderated to 6.4% YOY growth, according to the U.S. Bureau of Labor Statistics.[2] This has forced many industry participants to implement price increases to defend margins, testing the pricing power of many businesses.

## Trend #3:
## Rise of new, independent brands

Millennials and Generation Z have adopted young, independent brands, particularly ones that are distinct from their parents' generation. The rise of digitally-native consumer product companies has created a backdrop of industry players leveraging digital engagement and e-commerce to drive revenue. In addition, mission-driven companies have often resonated strongly with younger consumers who are demanding more from the brands they shop with.

## Trend #4:
## Effective inventory management

The supply chain challenges that, at times, paralyzed production in 2021, leaked into 2022 for many businesses. Industry players were forced to scrutinize their inventory ordering procedures, equally wary to be left with too much or too little product. Port congestion and backlogs have recovered significantly since the start of the year, but higher material prices have lingered for many inputs.



# Beauty & Wellness

*Capstone Finds Privately-Owned Brands Are Driving Selling Activity*

## M&A Overview & Outlook

The Beauty & Wellness sector has continued to demonstrate resilience amid a volatile economic environment—emerging as one of the bright spots in a Consumer industry that has been heavily impacted by macroeconomic headwinds. In 2022, return in Capstone's Beauty & Wellness public company index amounted to -8.1% which marks a strong outperformance compared to the S&P 500 return of -19.9%. While elevated inflation and prospects of a recession have dampened consumer sentiment, beauty spending has held steady as consumers often refuse to sacrifice personal care routines. Notably, lipstick sales grew 37% YOY through October, according to NPD.[3]

Select leading sector players have captured both top-line growth and gross margin expansion despite an elevated cost environment. e.l.f. Beauty (NYSE:ELF), a leading cosmetics provider, experienced a 33% YOY increase in net sales and 190 basis-point growth in gross margin, according to its Q2 fiscal 2023 earnings release.[4] Price increases, favorable product mix, and brand strength have been key to growing profitability for sector participants.

M&A volume in 2022 of 78 transactions announced or completed eclipsed 2020 levels (69 deals) and nearly met the 2019 total (87 deals). However, large strategic buyers slowed their acquisition pace compared to last year as many public companies filled their M&A capacity in 2021. Notably, public strategic buyers have accounted for 27 deals in 2022, summing to $1.4 billion, compared to 46 deals worth an aggregate $7.1 billion in 2021. This may lend to a fervent return of large strategics to the market in 2023, fueling competition for privately-owned companies.

## Key Sector Trends

The prevalence of independent, privately-owned middle market businesses has been a hallmark of the Beauty & Wellness space. In 2022, these companies continued to attract significant buyer appetite with privately-owned target companies accounting for 61.5% of transactions. As the baby boomer generation enters a prime stage to maximize personal liquidity, a wave of transaction inventory in the space is expected to come to market in the near-term.

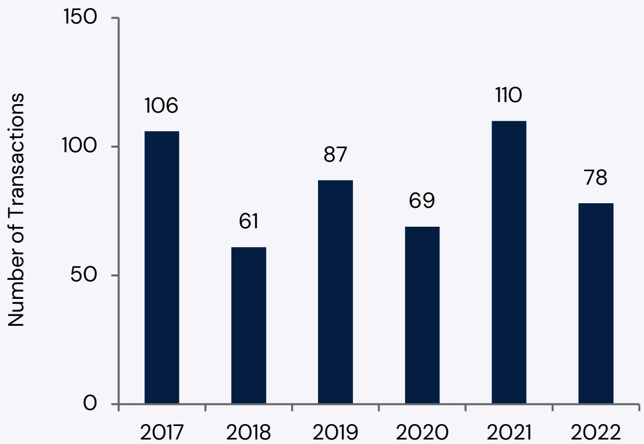
Beauty & wellness brands and manufacturers with recurring revenue, customer loyalty, and healthy gross margins garnered robust valuations in 2022. Notably, the average M&A multiple from 2018-2022 amounted to 4.0x EV/Revenue and 12.9x EV/EBITDA, bolstered by high profile deals such as Church & Dwight's (NYSE:CHD) acquisition of Hero for an enterprise value of $630 million and equivalent to 14.0x EV/EBITDA (September). Despite economic uncertainties, buyers have demonstrated a willingness to pay premiums for quality businesses.

Contract manufacturers have emerged as highly sought-after businesses by buyers in the current market. In times of elevated prices, sector players have often turned to outsourced production to bolster efficiencies and cost savings. As a result, outsourced manufacturers have obtained healthy valuations, even at smaller enterprise value ranges. Notably, Turpaz (TASE:TRPZ) acquired Klabin Eco Development for an enterprise value of $24.3 million, representing a 10.1x EV/EBITDA multiple. Capstone expects Contract Manufacturing M&A activity to persist at elevated levels in 2023, particularly as private equity buyers continue to build and enhance platforms in the space.

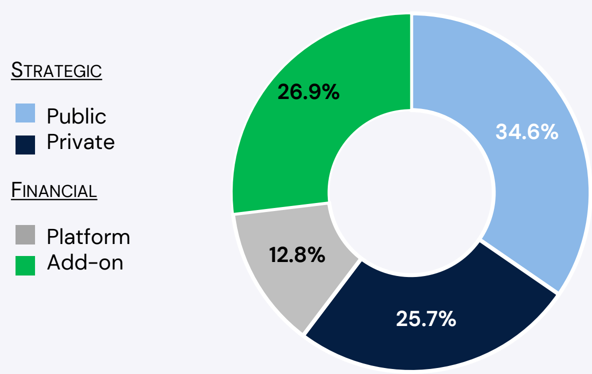
## Kenneth Wasik, Head of Consumer Investment Banking

*"Our research has uncovered what we believed to be true; that today's market is highly conducive to the sale of privately-owned beauty brands. The combination of historically high valuations, lots of cash looking to be invested, the resilience of the Beauty sector, and the growth and attractive customer base captured by emerging brands has resulted in over 60% of all transactions being privately-held beauty brands."*

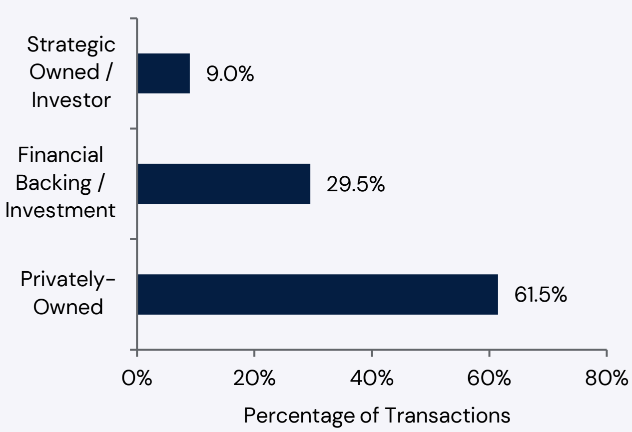
### Beauty & Wellness M&A Maintains Healthy Volume



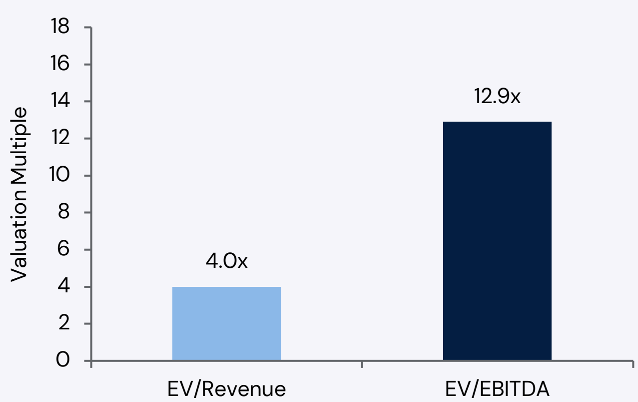

### Financial Buyers Remain Active




### Privately-Owned Businesses Account for Majority of Sellers in 2022




### Beauty & Wellness M&A Multiples (2018-2022)




*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Beauty & Wellness Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 12/31/22 | Skylar Body | Starco (OTCPK:STCB) | Provides natural perfumes, body washes, body lotions, and hand creams. | $16.4 | – | – |
| 11/30/22 | VENUS Beauty Supplies | Modern Beauty Supplies | Distributes and retails beauty and barber products. | – | – | – |
| 11/16/22 | Perfect V | GridKor | Develops, manufactures, and sells intimate skincare treatment products. | – | – | – |
| 11/09/22 | ZitSticka | HeyDay | Manufactures and sells cosmetic products. | – | – | – |
| 11/07/22 | bettybeauty | Fisk Industries | Manufactures hair color dyes. | – | – | – |
| 10/31/22 | Vanity Planet | ONWRD | Provides online retailing of skincare products. | – | – | – |
| 10/18/22 | Gennev | UWH | Manufactures personal care products for women. | – | – | – |
| 10/17/22 | Follain Launch | Eco Chic | Provides beauty care products including cleansers, toners, and moisturizers. | – | – | – |
| 10/17/22 | Westwood Laboratories | Sole Source Capital | Manufactures professional products including health and beauty. | – | – | – |
| 09/23/22 | Skinbetter Science | L'Oréal (ENXTPA:OR) | Offers medical-dispensed skincare products. | – | – | – |
| 09/20/22 | Reign Together | Perk (OTCPK:PRKI) | Manufactures and retails skincare products. | – | – | – |
| 09/19/22 | Klabin | Turpaz Industries (TASE:TRPZ) | Offers research, development, and production, for beauty applications. | $24.3 | 2.5x | 10.1x |
| 09/06/22 | Hero | Church & Dwight (NYSE:CDH) | Provides acne treatment products. | $630.0 | 5.5x | 14.0x |
| 09/01/22 | Tata's Natural Alchemy | Amorepacific (KOSE:A090430) | Offers natural antiaging skincare products. | – | – | – |
| 08/18/22 | Contract Filling | Arizona Natural Resources | Manufactures deodorants and cosmetic equipment for brands and fragrance houses. | – | – | – |
| 08/16/22 | Barefoot Sciences | Topspin; Japonesque | Provides cleansing, softening, and repairing products for feet and nails. | – | – | – |
| 07/19/22 | Gadusol | Arcaea | Produces sunscreen products. | – | – | – |
| 07/04/22 | Maritime Beauty Supply | Founders East Capital | Distributes professional beauty supplies. | – | – | – |
| 06/21/22 | Paintbox | MiniLuxe (TSXV:MNLX) | Provides nail care products online. | – | – | – |
| 05/30/22 | Nutrafol | Unilever (LSE:ULVR) | Develops hair growth solutions for men and women. | – | – | – |
| 05/17/22 | Bellami Hair | Beauty Industry Group | Designs and manufactures hair extensions and related accessories. | – | – | – |

*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Capstone Partners Active and Closed Engagements

| | | |
|---|---|---|
| CONFIDENTIAL | MENOLABS | SIMPLY ORGANIC |
| CORPORATE SALE | HAS BEEN ACQUIRED BY | HAS BEEN ACQUIRED BY |
| BEAUTY CONTRACT MANUFACTURER | amyris | WLC WEST LANE CAPITAL PARTNERS IN PARTNERSHIP WITH J.P.Morgan Asset Management |

# Convenience Stores

*Scarcity Of Well-managed, Independent Convenience Store Chains Creates A Healthy Seller's Market*

## M&A Overview & Outlook

The Convenience Stores sector has navigated a challenging economic environment, combating elevated inflation and widespread labor shortages that have reverberated across the Consumer industry. The non-discretionary nature of convenience store spending and the strength of the current consumer have supported healthy operating performance among sector players, evidenced by defensive gross margins. Notably, TravelCenters of America (Nasdaq:TA) achieved a 50-basis point YOY increase in nonfuel gross margin in Q3, against a backdrop of high inflation, according to its earnings release.[5] Murphy USA (NYSE:MUSA) also registered YOY margin growth, with merchandise gross margin rising 40-basis points, according to its Q3 earnings release.[6]

While robust in-store sales and foodservice offerings are key to operating health, fuel margins serve as an imperative gauge on profitability. Typically, higher fuel prices have equated to downward pressure on margins, however, the opposite has played out in 2022. Notably, Murphy USA increased its retail fuel margin by 63.8% YOY in Q3 to 39.3 cents per gallon. The maintenance of strong margins has pointed towards the health of the consumer and market participants' ability to effectively pass on costs.

The recession resilience of this market is hardly a new phenomenon. During the Great Recession of 2007-2009, the sector registered an 8% sales increase, according to NACS.[7] As buyers search for defensive plays, M&A activity in the Convenience Stores sector has continued at a steady pace, with 49 transactions in 2022. While trailing 2021's record levels, this represents a robust level of sector dealmaking that is expected to continue through year end and into 2023.

## Key Sector Trends

M&A volume in the Convenience Stores sector in 2022 remained in line with pre-pandemic levels, with strategic buyers (85.7%) unquestionably dominating deal activity. The ability to manufacture growth through acquisitions has made this space attractive to a range of buyers. Sponsors, led by First Reserve's platform company Refuel, have accounted for a growing share of M&A volume, comprising 14.3% of 2022 deals.

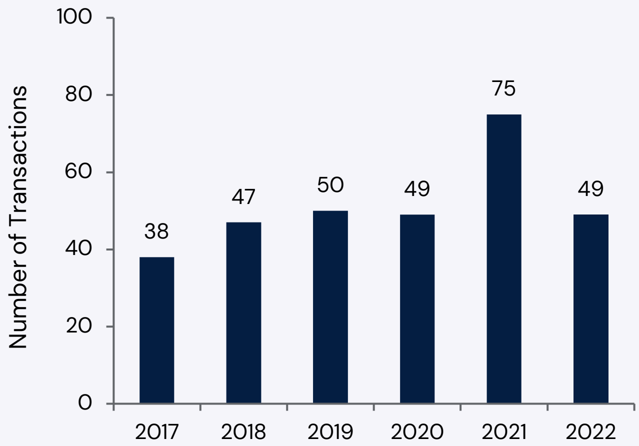
As the sector has increasingly consolidated, quality, privately-owned convenience store operators have been scarce, particularly in the under-50 store count range. Notably, the number of convenience stores in the 11-50 store count segment declined 4.2% YOY in 2022, the largest drop out of all store count sizes, according to NACS.[8] The lack of supply has created increased competition among buyers for small- to mid-sized convenience store operators, evidenced by acquirers moving down market to purchase quality assets. In 2022, the average store count of target companies amounted to 22.8, declining from 30.7 in 2021. Many of the most active acquirers have demonstrated a steady interest in under-50, and even single-digit, store count acquisitions. Notably, Petroleum Marketing Group acquired Holt Oil's 19 petroleum marketing and convenience stores in November 2022. Terms of the transaction were not disclosed.

Average M&A valuations in the sector have remained elevated at 12.1x EV/EBITDA from 2019 to 2022—outpacing the three-year middle market average in the broader Consumer industry of 10.3x EV/EBITDA. Independent convenience store operators with healthy fuel margins, robust foodservice and in-store offerings, and strong regional presence have garnered premium multiples.

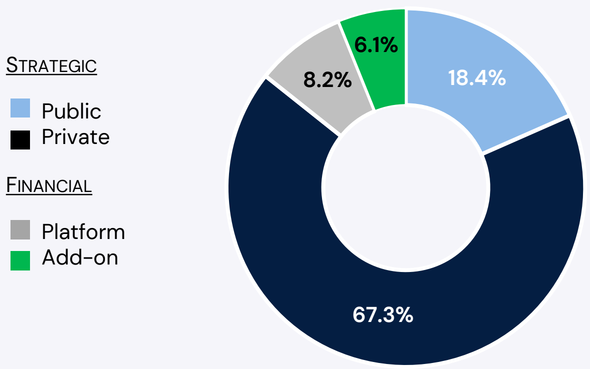
## Jesse Betzner, Senior Director

*"The smart money on Wall Street has figured out that the Convenience Stores space is one of the stronger counter recessionary areas of the market. Furthermore, the sector's underlying real estate value provides an added layer of security. These factors, coupled with the continued margin expansion that most c-stores are seeing from underinvestment in refinery capacity, ensures that the C-Store market will remain highly active throughout 2023. There is a school of thought that believes greater competition and higher multiples for c-store chains will happen as fewer and fewer large independent chains exist."*

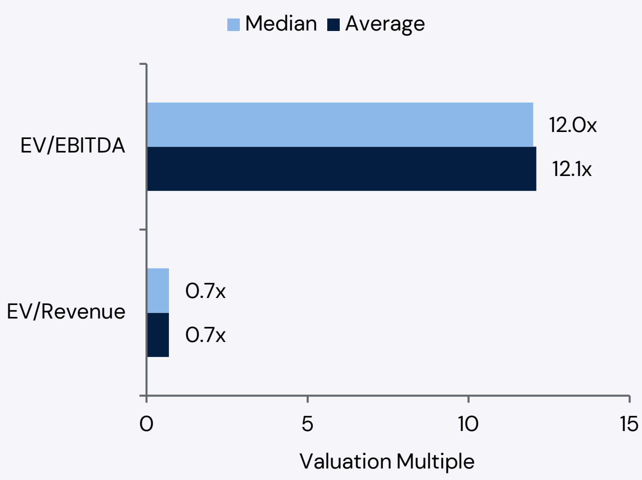
### Convenience Stores M&A Volume Maintains Healthy Pace



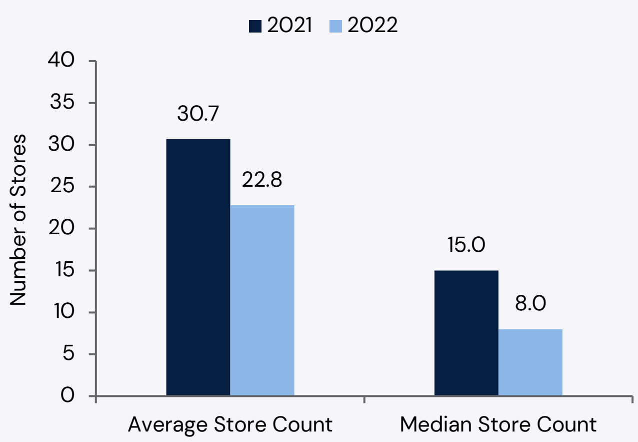

### Strategic Buyers Dominate Transaction Activity




### Average M&A Valuations (2019-2022)




### Average Target Company Store Count Falls Year-over-Year




*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Convenience Stores Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 12/21/22 | Maritime Farms | Majors Management | Comprises 13 convenience stores located in Maine. | – | – | – |
| 12/15/22 | Chevron gas station & C-store | Yousuf and Yousuf | Includes a convenience store and eight fuel stations. | $1.3 | – | – |
| 12/06/22 | Anderson Oil | POPS Mart Fuels | Comprises 14 convenience stores. | – | – | – |
| 11/09/22 | Chevron-branded C-stores | Majors Management | Comprises 10 convenience stores and the dealer wholesale business. | – | – | – |
| 10/03/22 | Common Cents Stores | Fast Stop Travel Centers | Includes nine convenience stores. | – | – | – |
| 09/21/22 | Tidewater Convenience | Global Partners (NYSE:GLP) | Comprises 14 company-operated gas stations and convenience stores in Virginia. | $40.4 | – | – |
| 09/12/22 | Transit Energy | GPM Investments | Offers 150 convenience stores and fuel supply rights to approximately 200 dealers. | $370.0 | – | 11.0x |
| 09/06/22 | Tres Amigos | Yesway | Comprises nine convenience stores. | – | – | – |
| 08/31/22 | Four Maryland C-stores | Par Mar Oil | Comprises four Maryland convenience stores. | – | – | – |
| 08/22/22 | Premier Stores | Refuel | Includes six convenience stores located in Greensboro, North Carolina. | – | – | – |
| 08/22/22 | Whalen | Refuel | Comprises three convenience stores located in Raleigh-Durham, North Carolina. | – | – | – |
| 06/21/22 | Moore's Country Store | Heas Energy | Offers six convenience stores and gas stations. | – | – | – |
| 06/14/22 | Embark Energy | Refuel | Comprises 11 convenience stores. | – | – | – |
| 04/06/22 | Valley Mart | Texas Enterprises | Includes 13 convenience stores and branded distribution and fuel assets. | – | – | – |
| 04/01/22 | Laurel Oil | Clark Oil | Comprises six convenience stores and Shell-branded distribution assets. | – | – | – |
| 03/02/22 | Assets of Circle K | Majors Management | Comprises 69 convenience store locations of Circle K. | – | – | – |
| 02/02/22 | Millers | Global Partners (NYSE:GLP) | Includes 21 company operated convenience stores. | $60.1 | – | – |
| 01/25/22 | Pride Stores | ArcLight Capital | Comprises 31 convenience stores across the Springfield and Hartford metro areas. | CF | CF | CF |
| 01/14/22 | Assets of W.G. Johnson Oil | Kim's Convenience | Includes the commercial and retail business which comprises convenience stores. | – | – | – |
| 01/10/22 | Diprima's Fairport Mobile | Quicklee's | Comprises a convenience store. | – | – | – |
| 12/27/21 | Barney's Convenience | S&G Stores | Comprises 12 convenience stores. | – | – | – |

*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*
*Blue shade indicates Capstone-advised transaction; CF=confidential*

# Select Capstone Partners Active and Closed Engagements

| | | |
|---|---|---|
| CONFIDENTIAL | CONFIDENTIAL | Pride |
| CORPORATE SALE | CORPORATE SALE | HAS BEEN ACQUIRED BY |
| 10-STORE CHAIN IN THE NORTHEAST | 40-STORE CHAIN & FUEL DISTRIBUTOR IN THE SOUTHEAST | ARCLIGHT CAPITAL PARTNERS, LLC |

# E-Commerce

*Online Sales Remain Healthy, Sector Players Battle Economic Headwinds*

## M&A Overview & Outlook

While the explosive growth the E-Commerce sector experienced during the pandemic moderated in 2022, underlying fundamentals in the space have supported long-term optimism for market participants. After recording YOY growth in excess of 44% in each quarter from Q2 2020 to Q1 2021, online sales have remained robust but have tapered comparatively. However, Q3 online sales experienced a 10.8% YOY growth—marking the first quarter since Q2 2021 to achieve a double digit jump in online sales, according to Digital Commerce 360.[9] Web penetration has also been historically healthy and ahead of pre-pandemic levels with e-commerce comprising 20.6% of total retail sales in Q3. As economic uncertainty mounts moving through 2023, e-commerce players are expected to continue to contend with a rising cost environment and a more cautious consumer. Sector players with a loyal customer base, healthy lifetime value (LTV) metrics, low customer acquisition costs, and efficient marketing spend are well-positioned to weather recessionary headwinds.

M&A volume declined in 2022, falling 31.4% YOY to 109 transactions announced or completed. While the flurry of deal volume experienced in 2021 has moderated, buyers have continued to pursue quality, privately-owned middle market companies. Strategic buyers comprised 61.4% of 2022 deals, led by private companies (32.1%). Financial buyers remained active acquirers, accounting for 38.5% of transactions, largely acting through add-on acquisitions (30.3%). Despite elevated financing costs and increased buyer scrutiny, M&A EBITDA multiples held steady at 10.0x. However, pricing on a revenue multiple basis has fallen significantly, averaging 1.8x compared to 3.5x in 2021.

## Key Sector Trends

Many middle market companies remain in the early stages of their digital transformation which has supported a favorable long-term outlook for the continued penetration of e-commerce capabilities. In addition, Millennials and Generation Z have driven much of the current trends in digital engagement, which has encouraged a greater adoption of an online or omnichannel presence by new and established brands. Large retail players have often turned to inorganic growth to bolster their e-commerce solutions, evidenced by Victoria's Secret's (NYSE:VSCO) acquisition of Adore Me in November for $400 million in cash (in addition to an earnout of up to $300 million), equivalent to ~1.7x revenue.

Online marketplaces have continued to be highly sought-after assets, particularly among large strategic buyers. Notably, Naver (KOSE:A035420) acquired Poshmark (Nasdaq:POSH), a leading social e-commerce marketplace for new and secondhand fashion, home goods, and electronics for an enterprise value of $1.05 billion and equivalent to 3.0x EV/Revenue. The acquisition provides Naver with an influx of younger users as Poshmark's primary demographic is Millennials and Generation Z, according to a press release.[10] Ebay (Nasdaq:EBAY) has also sought to enhance its marketplace capabilities, acquiring collectible trading cards marketplace provider TCGplayer for an enterprise value of $295 million in August.

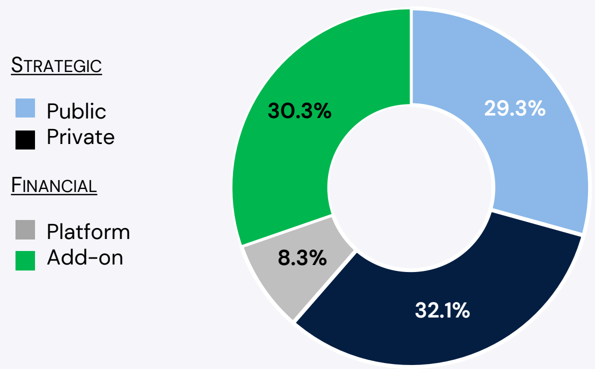
The market turbulence experienced through much of 2022 is likely to linger in the near term. However, online sales have continued to comprise a substantial portion of total retail sales, encouraging the launch of digitally native brands. When M&A markets inevitably recover, a significant level of pent-up demand is expected to drive deal volume.

## Lisa Tolliver, Managing Director

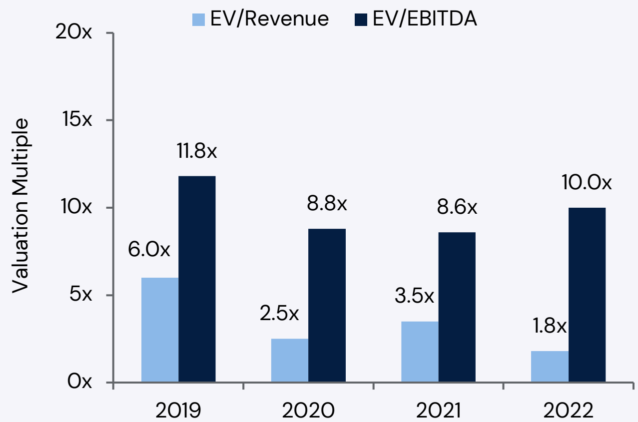
*"The E-Commerce sector is poised for long-term growth and expansion, making it a sector of continued M&A activity and investor interest. Online spending is forecasted to continue to increase for the foreseeable future and it remains a strong launching pad for new direct-to-consumer brands. Despite a current pull-back in overall M&A activity, we believe the E-Commerce sector will continue to be active across less discretionary Consumer categories. There are many high-quality e-commerce and DTC businesses that are continuing to scale in this post-COVID environment and remain attractive acquisition targets. There is also an element of scarcity value in the market right now for growing, A-level companies."*

### E-Commerce M&A Volume Falls to Pre-pandemic Levels

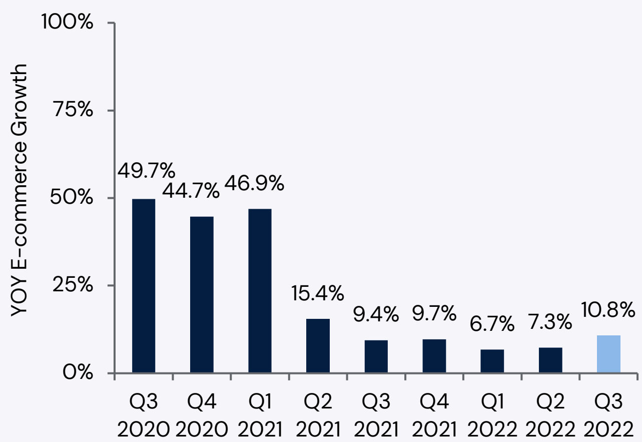

### Financial Buyers Continue to Utilize Add-on Acquisitions




### Average M&A EBITDA Multiples Hold Steady, Revenue Multiples Fall Sharply




### E-Commerce Sales Return to Double Digit Year-over-Year Growth




*Source: Digital Commerce 360, Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select E-Commerce Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 12/14/22 | Snowe | Interweave Brands | Provides branded direct-to-consumer home essentials products. | – | – | – |
| 11/30/22 | Artificial Turf Supply | Blackford Capital | Manufactures and distributes synthetic turf that is sold online. | – | – | – |
| 11/18/22 | Vinebase | Corksy | Provides online retailing for wineries. | – | – | – |
| 11/09/22 | ZitSticka | Heyday | Skincare brand focused on acne treatments sold through online channels. | – | – | – |
| 11/03/22 | Happy Healthy Hippie | Boosted Ecommerce | Offers vegan and plant-based nutrition supplements sold online. | – | – | – |
| 11/03/22 | XED Beverage | Next Century Spirits | Produces and sells cocktail products that are sold online. | – | – | – |
| 11/02/22 | Eckler Industries | Turn 5 | Sells corvette parts and accessories through an online portal. | – | – | – |
| 11/01/22 | Adore Me | Victoria's Secret (NYSE:VSCO) | Online women's intimate apparel and sleepwear company. | $400.0 | ~1.7x | – |
| 10/31/22 | Vanity Planet | ONWRD | Provides online retailing of skincare products. | – | – | – |
| 10/13/22 | Grailed | 1661 | Offers an online marketplace for buying and selling men's clothing. | – | – | – |
| 10/03/22 | NEOS Overshoe | SureWerx | Provides overshoes sold online. | – | – | – |
| 10/03/22 | Poshmark (Nasdaq:POSH) | NAVER (KOSE:A035420) | Operates a marketplace for new and secondhand style products. | $1,048.3 | 3.0x | – |
| 09/19/22 | Purple (Nasdaq:PRPL) | Coliseum Capital | Designs and sells mattresses, pillows, and cushions online direct to consumers. | $514.8 | 0.8x | – |
| 09/15/22 | AOS Group | Starco (OTCPK:STCB) | Provider of Art of Sport®, a body and skincare brand sold online. | $11.9 | – | – |
| 09/08/22 | SmartSign | NVP Associates; Sentinel Capital | Online provider of customizable signs, labels, and tags for regulatory, compliance, and safety. | – | – | – |
| 09/06/22 | Hero | Church & Dwight (NYSE:CDH) | Mighty Patch® brand and other acne treatment products sold online. | $630.0 | 5.5x | 14.0x |
| 08/22/22 | TCGplayer | eBay (Nasdaq:EBAY) | Develops and online marketplace for collectible trading cards. | $295.0 | – | – |
| 08/09/22 | Blue Nile | Sterling Jewelers | Provides online retailing of diamonds and jewelry. | $398.2 | 0.8x | – |
| 07/28/22 | E-Commerce Portfolio of FBA | Profound Commerce | Comprises the e-commerce brands of FBA Capital Management. | – | – | – |
| 07/25/22 | Brave Foods | Creatd (Nasdaq:CRTD) | Offers plant-based food sold online. | – | – | – |
| 07/21/22 | Vitabox | Cincy Brands | Provides online retailing of vitamins, supplements, and personal care products. | – | – | – |

*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Capstone Partners Closed Engagements

coop

HAS RECAPITALIZED WITH

topspin
CONSUMER PARTNERS

WISE OWL
OUTFITTERS

HAS BEEN ACQUIRED BY

THRASIO

RuffleButts®

HAS RECAPITALIZED WITH

SUMMIT PARK

# Food & Agriculture

*Pricing Power and Vertical Integration Remain Key Differentiators*

## M&A Overview & Outlook

Higher inputs costs have remained a significant hurdle for many food processors and, to a lesser extent, food distributors in 2022 and into 2023, emphasizing the importance of pricing power. While inflation has shown signs of moderating, food prices have remained elevated, rising 10.9% YOY in October, according to the Bureau of Labor Statistics.[11] The current cost environment has posed significant challenges to the gross margins of sector participants, even among large public companies that are essential in the food supply chain. Notably, Darling Ingredients (NYSE:DAR), experienced a decline in gross margin to 21.5% in Q3 from 27.5% in the prior year, according to its Q3 2022 earnings release.[12]

Vertical integration has been critical to maintaining healthy levels of profitability, particularly for food processors. In the Distribution segment, strong and reliable supplier relationships have proved increasingly important in the current environment. Over the past year there has been a clear bifurcation between sector participants with pricing power and those without—disadvantaging asset-light providers who are forced to outsource production. M&A has served as a useful tool for sector players to create scale and defensibility of operations.

M&A volume in the Food & Agriculture space slowed in 2022 compared to the prior year with 267 transactions announced or completed, a YOY decline of 30.2%. However, 2021 was a record year for sector deal volume, making for unique comparisons. Buyers have increasingly focused on sustainability of earnings and persistence of top-line growth. Strategics continued to account for the majority of volume (64.7%), while financial buyers have remained acquisitive (35.3%).

## Key Sector Trends

Despite economic headwinds and rising financing costs, private equity has maintained a healthy presence in the space, continuing to acquire privately-owned companies with robust cash flows. The Food Distribution segment garnered particular interest from sponsors in 2022, evidenced by Littlejohn's acquisition of Lipari Foods (October, undisclosed); and Wind Point Advisors' acquisition of FreshEdge (October, undisclosed). The healthy revenue performance of many players in the Food Distribution segment has been showcased by Performance Food Group (NYSE:PFGC) and Sysco (NYSE:SYY) achieving quarterly YOY sales increases of 42% and 16.2%, respectively, according to their fiscal Q1 2023 earnings releases.[13,14]

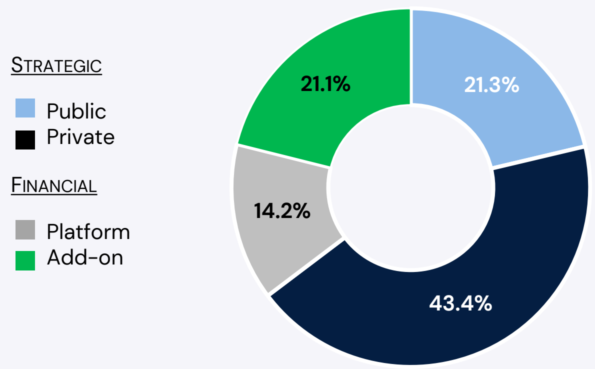
The Consumer industry has experienced a flight to quality amid an uncertain operating environment, with sell-side transaction volume largely comprised of privately-owned, high-quality businesses. Through 2022, the Food & Agriculture sector achieved healthy M&A multiples, with an average of 12.0x EV/EBITDA—outpacing the 2021 average of 10.8x EV/EBITDA. Strong margins, favorable product mix, and ability to scale have been drivers of premium pricing in the current M&A market. Notably, Orkla Food Ingredients acquired Denali Ingredients for an enterprise value of $200 million, equivalent to 2.0x EV/Revenue and 13.9x EV/EBITDA. Denali is a leading ingredients developer and manufacturer for the U.S. Ice Cream industry, which complements Orkla Food Ingredients' presence in the European Ice Cream and Confectionary Ingredients markets. Moving into 2023, sector participants are likely to continue to face pricing pressure. Players with demonstrated margin strength are poised to attract strong buyer and investor interest.

**Brian Boyle, Managing Director**

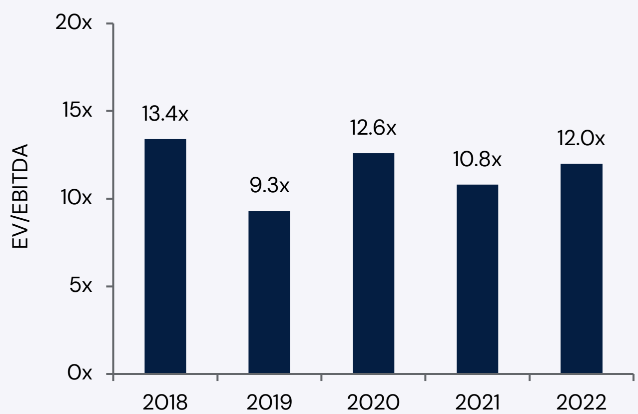
*"In a recent Marcum survey, almost 70% of food company executives cited inflationary pressures as the number one challenge facing their organizations. Gross margins of food processors and, to a lesser extent, food distributors continue to be strained by elevated raw material and labor costs. Some companies have been able to raise prices enough to offset these increases, but the majority have had to absorb a portion of these higher costs."*

### Food & Agriculture M&A Moderates in 2022

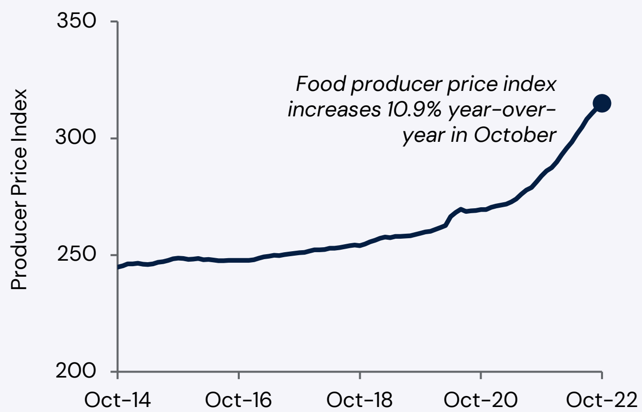

### Private Strategics Lead Deal Activity While Sponsors Remain Active




### Average M&A EBITDA Multiples Remain Elevated




### Food Prices Continue to Rise Through YTD 2022




*Source: U.S. Bureau of Labor Statistics, Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Food & Agriculture Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 12/13/22 | Papa Pita Bakery | Flowers Foods (NYSE:FLO) | Offers bagels, tortillas, bread, buns, English muffins, and pita bread. | – | – | – |
| 11/28/22 | Owensboro Grain | Cargill | Produces soy products and edible oils. | – | – | – |
| 11/21/22 | Larsen's Creamery | Alpenrose Dairy | Produces and manufactures fine butter products. | – | – | – |
| 11/15/22 | King's Pastry | Ironbridge Equity Partners | Manufactures and sells cakes, pastries, and other desserts. | – | – | – |
| 11/02/22 | Wetzel's Pretzels | MTY Franchising | Provides soft pretzels. | $207.0 | 0.8x | ~12.2x |
| 10/31/22 | Lipari Foods | Littlejohn | Distributes food products in categories including Bakery, Confections, and Dairy. | – | – | – |
| 10/31/22 | Dianne's Fine Desserts | BCPE North Star | Produces frozen thaw-and-serve desserts for the Food Service and Retail industries. | – | – | – |
| 10/26/22 | Left Coast Food | Green Farms | Distributes produce, dry goods, and frozen goods to the greater San Diego area. | – | – | – |
| 10/21/22 | NW Foodservice Distribution | Harbor Foodservice | Provides distribution of food products. | – | – | – |
| 10/18/22 | TruFood Manufacturing | Mubadala Capital | Offers contract manufacturing for private-label nutrition bars and baked goods. | – | – | – |
| 10/04/22 | FreshEdge | Wind Point Advisors | Distributes fruits, vegetables, dairy, meat, seafoods, floral, and specialty foods. | – | – | – |
| 10/04/22 | Saratoga Food Specialties | Solina Group | Produces seasoning and sauce. | – | – | – |
| 10/03/22 | Denali Ingredients | Orkla Food Ingredients | Manufactures and markets flavors, chocolate coatings, fudge sauces, and powders. | $200.0 | 2.0x | 13.9x |
| 09/20/22 | JC Produce | GrubMarket | Distributes fresh produce and other perishables. | – | – | – |
| 09/16/22 | Keystone Natural | House Foods America | Produces plant-based protein food products. | $110.0 | 2.0x | – |
| 09/14/22 | Northampton Growers | WYCO Produce | Produces and distributes vegetables to wholesale markets and chains. | – | – | – |
| 09/12/22 | FresH2O Growers | Gotham Greens | Produces salad products. | – | – | – |
| 09/08/22 | Gathered Foods | Wicked Foods | Develops vegan, plant-based food substitutes for seafood. | – | – | – |
| 09/08/22 | Handi Foods | Ironbridge Equity Partners | Manufactures crackers, chips, puffs, snacks, and Mediterranean breads. | – | – | – |
| 09/01/22 | Solo Foods | Burlington Capital Partners | Manufactures food and baking products. | – | – | – |
| 08/31/22 | Water Lilies Food | Blue Point Capital | Manufactures and distributes frozen Asian-inspired food products. | – | – | – |

*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Capstone Partners Active and Closed Engagements

CONFIDENTIAL

CORPORATE SALE

VERTICALLY INTEGRATED MEAT PROCESSOR

UNCLE JOHN'S PRIDE

HAS BEEN RECAPITALIZED BY

maranon | STAR MOUNTAIN CAPITAL

PROMISE HOLDINGS LLC.

SIEGEL EGG CO.

HAS BEEN ACQUIRED BY

Rotunda Capital Partners

# Home Goods

*Capstone Predicts Strategics Will Drive 2023 M&A Activity*

## M&A Overview & Outlook

The persistence of consumer spending in the Home Goods space fostered steady sector growth through 2022, despite falling consumer sentiment and a challenging economic environment. The pandemic encouraged a renewed focus on home improvement and furnishing, which has created stickiness in purchasing behavior. Notably, personal consumption expenditures on furnishings & durable household equipment increased 6.2% YOY in 2022, rising to $525.6 billion, according to the U.S. Bureau of Economic Analysis. Supply chain disruptions and inflation have remained challenges for sector players, with many implementing pricing adjustments to defend profitability. Leading provider of household appliances, Hamilton Beach Brands (NYSE:HBB), improved its gross profit margin by 190 basis-points YOY, according to its Q3 earnings release.[15]

M&A activity in the Home Goods sector was seemingly unabated in 2022. Transaction volume has increased 10.3% YOY to 129 deals announced or completed. Strategic buyers have been responsible for the strength of the sector's M&A market, accounting for 72.9% of 2022 deal volume. Private strategic buyers were particularly active, comprising 56.6% of total transactions. Private equity firms have largely pulled back on platform investments in the sector in the past six months due to economic uncertainty and a deterioration in lending conditions. In 2022, financial buyers accounted for 27.1% of transactions, marking a steep decline from 41.9% of deals in full-year 2021. Sponsors increasingly deployed capital through add-on acquisitions (17.1%) to bolster the scale and capabilities of portfolio holding companies.

## Key Sector Trends

Throughout 2022, businesses in the middle market fueled transaction volume as buyers pursued smaller deals amid economic turbulence. The median M&A enterprise value fell to $59.4 million in 2022, a significant decline from $177.5 million in 2021. Middle market privately-owned companies have increasingly consolidated to bolster their retail presence and expand product offerings. Notably, leading sleep products suppliers Rize and Glideaway completed a merger in July (undisclosed) to become a $150 million company selling through 3,000 retailers with more than 20,000 storefronts, according to a press release.[16] The two companies are both third-generation and family-managed businesses.

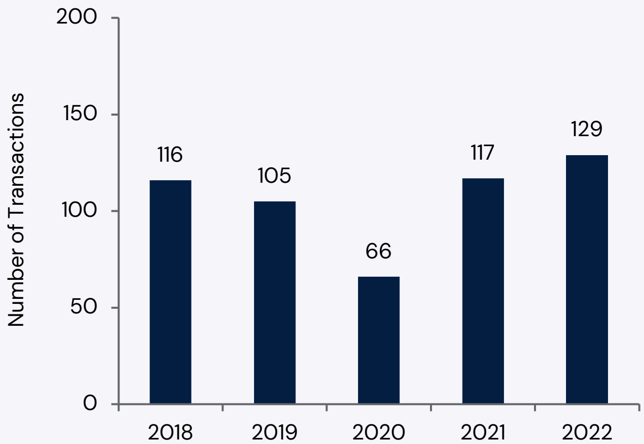
Independent home goods manufacturers have also pursued inorganic growth to scale capacity. In July, Blue Bell Mattress acquired regional bedding, futon, and cotton batting producer Wolf for an undisclosed sum. The acquisition includes the factory, intellectual property, trademarks, and book of customers, and provides Blue Bell with 100,000 additional square feet in manufacturing space, according to a press release.[17] As privately-owned companies seek increased vertical integration, independent suppliers are poised to experience healthy strategic buyer appetite.

Capstone expects strategic buyers to continue to drive the majority of transaction activity in 2023. While persistent inflation and rising financing costs have cautioned many private equity buyers, the perceived synergies strategics can gain from an acquisition has kept sector participants active in the M&A market. The consumer has demonstrated resilience through much of 2022—continued strength would surely buoy the Home Goods sector in 2023.

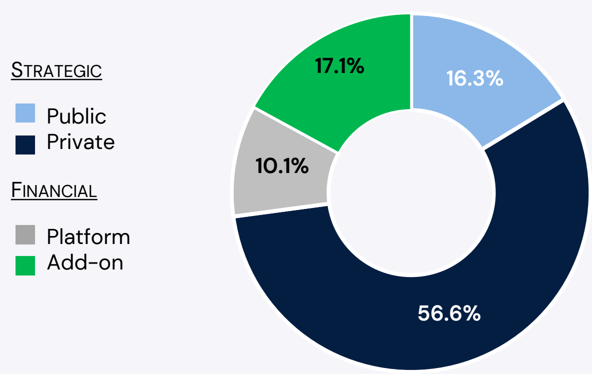
## Kenneth Wasik, Head of Consumer Investment Banking

*"The Home Goods sector continues to perform. M&A volumes have been surprisingly resilient. The key question buyers are posing to sellers is: when and how large of an impact will there be if the sustained levels of consumer spending ends? Consumer spending during and after COVID has largely propped up the Home Goods sector. However, COVID checks and increased savings are projected to end at some point. Currently, we do not see any major changes.*

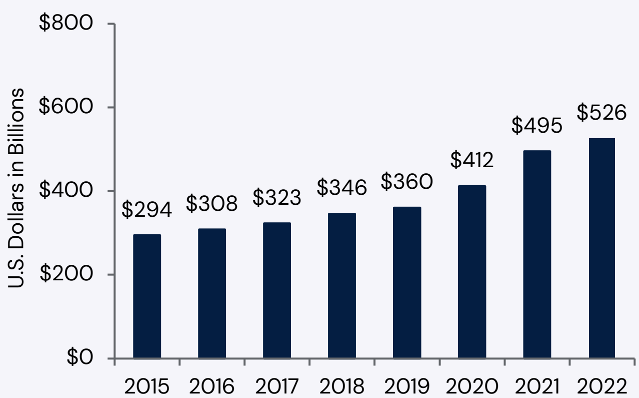
### Home Goods M&A Volume Exceeds Prior Year



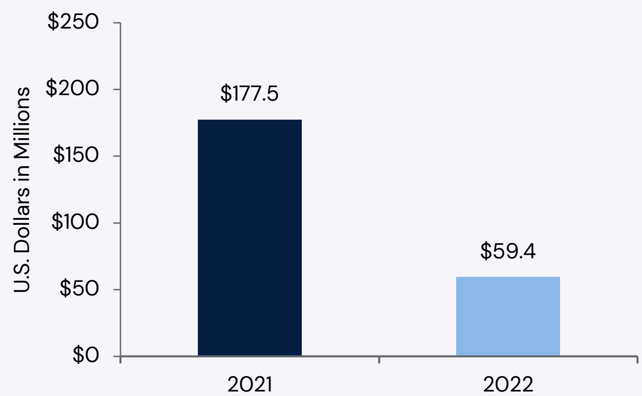

### Private Strategic Buyers Undeterred By Economic Headwinds




### Furnishings & Durable Household Equipment Sales Rise 6.2% YOY




### Median M&A Enterprise Value Shows a Move Down Market by Buyers




*Source: U.S. Bureau of Economic Analysis, Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Home Goods Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 11/07/22 | LandCare Associates | Outdoor Living Supply | Distributes natural stone, hardscapes, and landscape supplies. | – | – | – |
| 11/03/22 | Lowe's Canada | Sycamore Partners | Provides home improvement and gardening products. | $400.0 | – | – |
| 10/26/22 | Tusco | Tenth Avenue Holdings | Manufactures and sells indoor and outdoor planters for the Lawn & Garden industry. | – | – | – |
| 10/24/22 | Weber (NYSE:WEBR) | BDT Capital | Manufactures and distributes outdoor cooking products and accessories. | $2,993.0 | 1.9x | – |
| 10/21/22 | Opposite Wall | Nolk | Designs and manufactures home décor and studio design. | $4.4 | – | – |
| 10/19/22 | International Wholesale Tile | Victoria (AIM:VCP) | Distributes marble and granite products. | $28.5 | 0.5x | 4.1x |
| 10/17/22 | Marge Carson | Linly Designs | Manufactures and markets upholstery furniture. | – | – | – |
| 10/17/22 | Martin Door | PGT Innovations (NYSE:PGTI) | Provides garage doors for residential and commercial customers. | $185.0 | 3.1x | 8.5x |
| 10/07/22 | Orian Rugs | Sage Park | Manufactures and sells rugs. | – | – | – |
| 10/04/22 | Rasmussen Custom Cabinetry | Third Bench Holdings | Manufactures, distributes, and installs residential cabinets. | – | – | – |
| 09/29/22 | Keeco | Hollander Sleep Products | Designs, develops, and manufactures home textile products. | – | – | – |
| 09/28/22 | Kwalu | Dunes Point Capital | Provides durable furniture. | – | – | – |
| 09/19/22 | Purple Innovation (Nasdaq:PRPL) | Coliseum Capital Management | Designs and manufactures mattresses, pillows, and cushions. | $514.9 | 0.8x | – |
| 09/15/22 | ReSource Colorado | Spectra | Manufactures carpets and rugs. | – | – | – |
| 09/06/22 | MacKenzie-Childs | EagleTree Capital | Provides furniture, décor, garden products, and accessories. | – | – | – |
| 08/22/22 | Tullos Supply | Hanes | Converts and distributes construction fabrics for the Furniture and Bedding industries. | – | – | – |
| 08/03/22 | WT Shade | InPro | Designs and manufactures custom window shades. | – | – | – |
| 07/25/22 | Coraggio Design | Thibaut | Provides home furnishings including textiles, furniture, and home accessories. | – | – | – |
| 07/22/22 | Glideaway | Rize | Manufactures sleep products including bed frames and mattresses. | – | – | – |
| 07/13/22 | Wolf | Blue Bell Mattress | Manufactures mattresses and futons. | – | – | – |
| 06/25/22 | Corsicana Bedding | Blue Torch | Offers mattresses including memory foam, pocket springs, and premium inner springs. | – | – | – |

*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Capstone Partners Closed Engagements

coop

HAS RECAPITALIZED WITH

topspin
CONSUMER PARTNERS

CORSICANA
MATTRESS COMPANY

HAS SECURED $142.5 MILLION IN SENIOR CREDIT FACILITIES FOR THE ACQUISITION OF

SYMBOL
Your life, your mattress

DC THOMSON

HAS DIVESTED

wild +wolf.

# Outdoor Recreation & Enthusiasts

*Private Strategic Buyers Remain Active Despite Economic Headwinds*

## M&A Overview & Outlook

Elevated levels of inflation and lingering supply chain disruptions challenged the Outdoor Recreation & Enthusiasts sector in 2022. However, the wave of new consumers that have entered the space over the past two years has created fervent and resilient spending patterns—fueling sector growth and optimism for 2023. Notably, personal consumption expenditures on recreational goods and vehicles increased 5.1% YOY through October, rising to $664.6 billion, according to the U.S. Bureau of Economic Analysis. The Sporting Equipment, Supplies, Guns & Ammunition segment has outperformed the broader market, with expenditures growing 7.1% YOY.

Economic headwinds placed significant downward pressure on gross margins of sector players throughout 2022. Vista Outdoor (NYSE:VSTO), a leading outdoor products and shooting sports provider, experienced a 477 basis-point decline in gross profit margin, largely due to higher supply chain and input costs, according to its Q2 fiscal year 2023 earnings release.[18] As businesses continue to combat a volatile operating environment, customer loyalty, recurring revenue, and effective inventory management are expected to be key determinants of healthy performance.

M&A volume in the Outdoor Recreation & Enthusiasts sector moderated in 2022, with 146 transactions announced or closed. While this represents a 30.5% YOY decline, M&A activity has remained in line with pre-pandemic averages. Brand strength and customer loyalty remain highly sought-after attributes among target companies and often translate to strong pricing power. Despite a slowing market, quality businesses are expected to attract robust buyer attention.

## Key Sector Trends

Strategic buyers accounted for the majority of 2022 transaction activity, comprising 79.5% of deals. In particular, private strategics (50.0%) have actively utilized inorganic growth to add complementary product offerings and drive operational synergies. Elevated financing costs, which have begun to impact debt utilization in the middle market, and an uncertain economic environment have facilitated caution among private equity buyers. Notably, the average debt multiple for buyout transactions between $10-$250 million fell to 3.7x EBITDA in Q3 from 4.0x a year ago, according to GF Data®. Sponsors have increasingly scrutinized the sustainability of a target's cash flow, as successful leveraged buyouts are often predicated upon the target's ability to rapidly service debt. However, financial buyers remained acquisitive in 2022, accounting for 20.5% of deal activity.

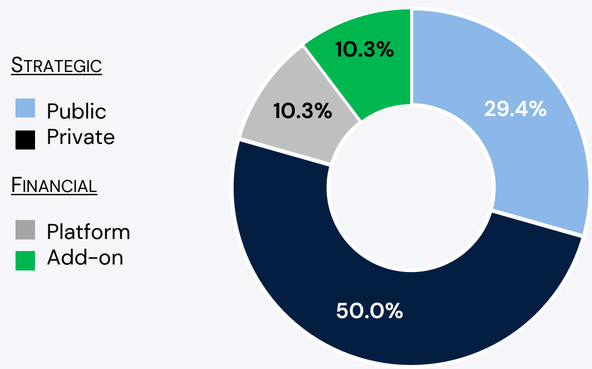
Despite a 15.9% decline in total middle market deal volume in 2022, quality businesses have continued to attract strong pricing from interested buyers. Notably, the average M&A EBITDA multiple in the Outdoor Recreation & Enthusiasts sector improved to 13.5x in 2022, a full turn above the 2021 average of 12.5x. Key drivers of premium multiples have included high levels of recurring revenue, customer retention, consistency of financial performance, and acquisition fit. Strategics have demonstrated a willingness to pay healthy multiples to win business, evidenced by Vista Outdoor's acquisition of Simms Fishing for an enterprise value of $192.5 million, equivalent to ~1.8x EV/Revenue and ~11.7x EV/EBITDA (July). As an uncertain economic environment encourages a flight to quality, targets with a robust margin profile and ability to pass on costs remain strong candidates for premium M&A pricing.

**Kenneth Wasik, Head of Consumer Investment Banking**

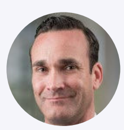
*"Top of mind for us is whether the Consumer Enthusiast sector will begin to be viewed as a counter recessionary segment. Although still early, the fact that volumes have held up and unusually strong margins prevail, it would point towards that direction. We are particularly excited by the size and quality of M&A deals coming to market including Fox Head, Simms, and SuperATV. We believe the natural conclusion of these M&A trends is further consolidation into megabrands owned by public companies. What does this mean for the privately-owned brand? Markets remain strong and open for those seeking liquidity."*

## Outdoor Recreation & Enthusiasts M&A Volume Moderates


## Private Strategics Lead Buyer Activity




## Average M&A Valuations Rise Despite Decline in Volume

**Pete Bailey, Director**

*"Consumers continue to show strong loyalty and stickiness to outdoor recreation and enthusiast activities in a challenging economic environment, and strategic acquirers and private equity groups remain in the hunt for high-performing companies with great brands in the space. Companies that are successfully pivoting more into the Direct-to-Consumer channel stand out from the rest of the pack."*

*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Outdoor Recreation & Enthusiasts Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 12/30/22 | b4Adventure | True Play | Manufactures and distributes modern play structures and outdoor play products. | – | – | – |
| 12/08/22 | The Putting Arc | Golf Training Aids | Provides golf putting training equipment. | – | – | – |
| 11/24/22* | Fiocchi Munizioni | CSG | Produces small-caliber ammunitions and provides hunting and shooting products. | – | – | – |
| 10/21/22 | Penalty Box Hockey | Pure Hockey | Offers hockey equipment and sportswear. | – | – | – |
| 10/20/22 | Bob Ward & Sons | Al's Sporting Goods | Retails sporting goods, apparel, and outdoor gear. | – | – | – |
| 10/17/22 | Fins and Feathers | Yellow Dog Flyfishing | Provides flies and small fishing items. | – | – | – |
| 10/06/22 | Dirty Jigs Tackle | Nichols Lures | Offers fishing products including fishing jigs. | – | – | – |
| 10/04/22 | Whisker Seeker | PRADCO Outdoor Brands | Manufactures and sells fishing rods. | – | – | – |
| 09/19/22 | HLC | MiddleGround Management | Distributes bicycle parts and accessories. | – | – | – |
| 08/29/22 | Clear Creek RV Center | Camping World (NYSE:CWH) | Comprises recreational vehicle dealerships. | – | – | – |
| 08/26/22 | Kore Outdoor | Ironbridge Equity Partners | Manufactures paintball related products. | – | – | – |
| 08/18/22 | SuperATV | Dorman (Nasdaq:DORM) | Provides recreational vehicle dealership services. | $590.0 | 2.8x | – |
| 08/10/22 | SkyTrak | Golftec | Manufactures and sells golf trajectory measuring instruments. | $65.0 | – | – |
| 08/01/22 | Raven Hockey | Tovi Hockey | Manufactures and distributes hockey sticks. | – | – | – |
| 07/28/22 | Sinclair Marina | Brunswick (NYSE:BC) | Operates a boat marina. | – | – | – |
| 07/27/22 | Simms Fishing Products | Vista Outdoor (NYSE:VSTO) | Provides fishing gear including waders, wading boots, and layering. | $192.5 | ~1.8x | ~11.7x |
| 07/19/22 | Deseo Swimwear | Ricks Investments | Designs, manufactures, and markets swimwear. | – | – | – |
| 07/11/22 | Pure Archery | JDH Capital | Designs and manufactures archery equipment. | – | – | – |
| 07/11/22 | Detail K2 | Ronin Equity Partners | Manufactures outdoor power equipment including snowplows and trailers. | – | – | – |
| 07/06/22 | Fox Head | Vista Outdoor (NYSE:VSTO) | Designs and produces motocross gear and apparel for riders. | $590.0 | ~1.7x | ~10.7x |
| 06/22/22 | Ocean Bio-Chem (Nasdaq:OBCI) | OneWater (Nasdaq:ONEW) | Provides products for markets including Marine, Powersports, and Recreational Vehicle. | $122.6 | 1.9x | 10.5x |

** = International transaction*
*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Capstone Partners Active and Closed Engagements

| | | |
|---|---|---|
| CONFIDENTIAL | KASH CA INC. LAX X-TREME BULLETS | WISE OWL OUTFITTERS |
| CORPORATE SALE | HAS BEEN ACQUIRED BY | HAS BEEN ACQUIRED BY |
| MANUFACTURER OF BIKES & ACCESSORIES | fi FERNANDEZ HOLDINGS, INC. | THRASIO |

# Pet & Animal Care

*Consumer Spending Persists, Fueled by Pet Humanization Trends*

## M&A Overview

The ongoing presence of "COVID puppies" and "COVID kittens" fostered healthy consumer demand in the Pet & Animal Care sector in 2022. Despite inflationary headwinds, many categories of the sector have proven to be nondiscretionary, with personal consumption expenditures on pets & related products rising to $96.8 billion through November 2022, a YOY increase of 8.3%, according to the U.S. Bureau of Economic Analysis. The defensibility of the sector has been further demonstrated by the outperformance of Capstone's Pet & Animal Care index compared to the S&P 500 on an EBITDA multiple basis. Through February 10, the Pet & Animal Care Index has traded at a market capitalization weighted average of 25.9x EBITDA, a significant premium compared to the S&P 500's average of 13.2x.

While M&A activity has not matched the record levels experienced in 2021, transaction volume in 2022 did surpass pre-pandemic annual totals with 105 deals announced or completed. Strategic buyers have comprised the majority of deal volume, accounting for 56% of total transactions, as sector players have consolidated to achieve scale, bolster product offerings, and recognize synergies. Financial buyers have maintained a strong presence in the space (44%), with private equity firms actively seeking add-ons to portfolio companies or entry into the sector. Despite transaction volume falling compared to the prior year, total disclosed enterprise value in 2022 of $7.7 billion has far exceeded 2021's total of $2.1 billion. Total transaction value soared with the help of high-profile deals including Clayton, Dubilier & Rice and TPG Capital's acquisition of Covetrus for $4.4 billion, equivalent to 23.5x EV/EBITDA (May 2022)—highlighting the premiums buyers are willing to pay for quality assets.

## Key Sector Trends

The number of pet households increasing to 90.5 million (American Pet Products Association[19]) has served as a growth driver for the Veterinary & Health segment. The robust consolidation among veterinary service providers has continued. Notably, the segment accounted for 46% of 2022 transactions as sponsor-backed platforms have aggressively rolled up veterinary service providers. In a trend Capstone expects to continue, VetCor, a portfolio company managed by Harvest Partners, acquired People, Pets, & Vets (PPV), a veterinary services roll-up owned by Cressey & Company with over 150 animal hospitals across the U.S. (September 2022).

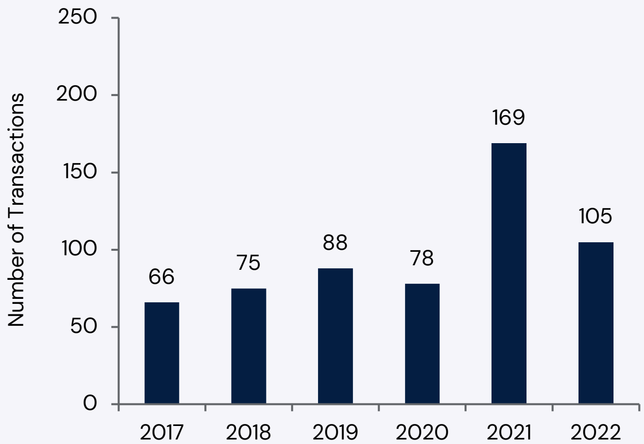
The humanization trend in the Pet space has fueled an active market for Healthy Pet Consumables. Leading sector participants have recognized the revenue opportunity and have allocated resources to develop or acquire exposure to the segment. Notably, Chewy (NYSE:CHWY) launched Vibeful, its first private brand in the Pet Wellness category, offering a line of supplements and multivitamins. The announcement came on the heels of a strong Q3 performance for Chewy, with net sales improving by 14.5% YOY, according to its earnings release.[20] Sponsors have also sought to extend their reach in the segment, evidenced by Alpine Investor-backed Antelope's acquisition of Ark Naturals in September for an undisclosed sum.

Nontraditional pet food and supplement formats have increasingly gained adoption in the sector. In particular, the freeze-dried segment of the pet food market has surged over the past 24 months.  This includes private equity-backed facility expansions at Primal Pet Group and Carnivore along with acquisitions such as Bravo by BrightPet.

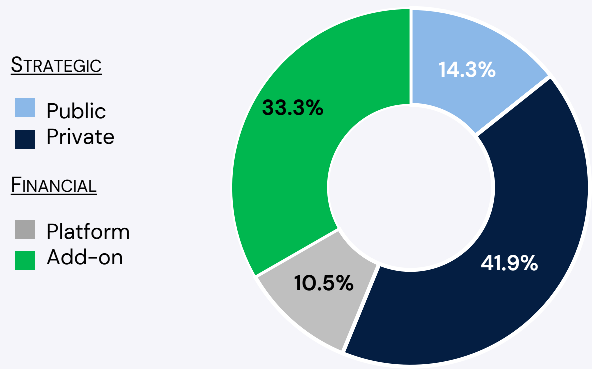
**Tom Elliott, Managing Director**

*"The desire on the part of buyers to gain a toehold in the Pet Care sector is stronger than ever. A recurring theme in buyer conversations involves their lack of willingness to pay the premiums required to compete in the veterinary roll-up frenzy, but a strong commitment to find another avenue to participate in the Pet space, be it a product or service platform."*

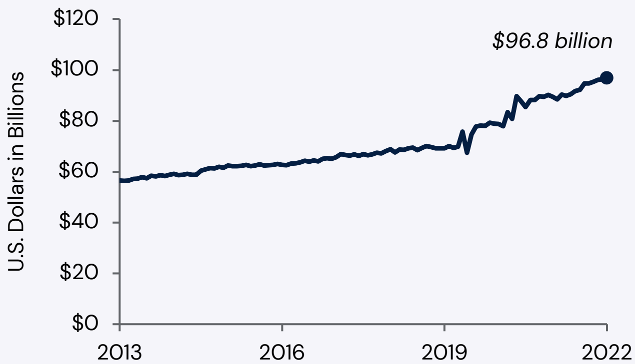
### M&A Volume Exceeds Pre-Pandemic Levels



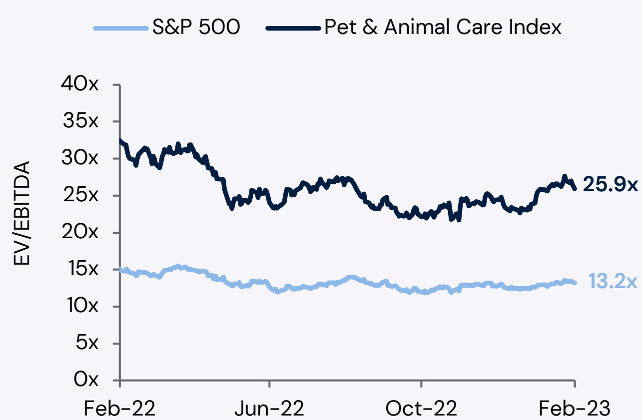

### Private Equity Remained Active in 2022




### Pets & Related Products Personal Expenditures Rise 8.3% YOY




### Pet & Animal Care Public Companies Outperform S&P 500




*Pet & Animal Care Index includes: CENT, CHWY, ELAN, FRPT, IDXX, PETQ, ZTS*
*Source: U.S. Bureau of Economic Analysis, Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Pet & Animal Care Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 01/01/23 | Treat Planet | Inverness Graham | Manufactures pet products made from unique proteins and all natural ingredients. | – | – | – |
| 12/16/22 | The Canine Companies | Radio Systems | Retails pet care products. | – | – | – |
| 12/12/22 | Handicappedpets | Lintbells | Offers pet mobility accessories and other pet products. | – | – | – |
| 11/02/22 | Lazy Dog Crazy Dog | Dogs 24/7 | Provides a dog boarding and daycare facility. | – | – | – |
| 11/02/22 | Atta Boy | Monolith Brands | Designs and manufactures dog boots, paw balm, and paw sanitizing products. | – | – | – |
| 11/01/22 | Champion Petfoods | Mars Petcare | Produces and markets pet food products for dogs and cats including freeze-dried treats. | – | – | – |
| 10/20/22 | Bravo | BrightPet Nutrition | Provides frozen raw and freeze-dried diets, treats, and chews for dogs and cats. | – | – | – |
| 10/18/22 | Animix | Benford Capital | Offers pet food premixes, feed additives, supplements, and specialty ingredients. | – | – | – |
| 10/11/22 | Northeast Veterinary | AmeriVet Partners | Includes 14 veterinary practices. | – | – | – |
| 09/22/22 | Assets of VersaPet | Groupe Intersand Canada | Comprises cat litter products. | – | – | – |
| 09/22/22 | Vence | Merck Animal Health | Develops and manufactures connected wearable devices for livestock. | – | – | – |
| 09/22/22 | Veterinary Surgical | Veritas Veterinary | Provides a veterinary surgical clinic. | – | – | – |
| 09/09/22 | The Pet Gazebo | Win World | Manufactures and sells dog kennels. | – | – | – |
| 09/07/22 | People, Pets, and Vets | VetCor | Offers veterinary services. | – | – | – |
| 09/07/22 | Ark Naturals | Antelope | Produces health, remedy, and lifestyle solutions for pets. | – | – | – |
| 08/22/22 | Freeze-Dry Foods | Thrive Foods | Processes and supplies freeze-dried foods in North America. | – | – | – |
| 08/16/22 | AZPetVet | ADMI | Provides veterinary care through a network of animal hospitals in greater Phoenix. | – | – | – |
| 08/10/22 | Rover's Wellness | Tenacious Laboratories | Produces and sells hemp oil for pets. | – | – | – |
| 08/04/22 | New Generation Devices | Vimian (OM:VIMIAM) | Develops veterinary orthopedic products. | – | – | – |
| 07/25/22 | Family Vet Group | Heartland Veterinary | Offers general veterinary services. | – | – | – |
| 07/12/22 | United Veterinary Service | Heritage Animal Health | Provides veterinary healthcare services. | – | – | – |

*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Capstone Partners Active and Closed Engagements

**CONFIDENTIAL**

CORPORATE SALE

LEADING BRAND OF FLEA & TICK MEDICATION

**CONFIDENTIAL**

CORPORATE SALE

MANUFACTURER OF LEADING PRESTIGE DOG BED BRAND

SPORT PET®

HAS RECAPITALIZED WITH

topspin CONSUMER PARTNERS

# Vehicle Aftermarket

*Strong M&A Activity Despite Near-term Headwinds*

## M&A Overview & Outlook

Aging light vehicle parc, persistent automotive services spending, and widespread end market applications have fueled sustained growth in the Vehicle Aftermarket sector—a space that emerged as a clear standout in the broader Consumer industry in 2022. Global chip shortages and supply chain challenges have contributed to a rising average age of U.S. vehicles, which reached an all time high of 12.2 years in 2022, according to S&P Global Mobility.[21] This has created a healthy backdrop of demand in the Aftermarket space as older vehicles often require additional maintenance and services.

While many sectors within the Consumer industry have experienced margin compression and lower top-line growth, the nondiscretionary nature of many aftermarket segments, especially replacement parts and service for "daily drivers," has fostered a high degree of recession resilience. Notably, personal expenditures on motor vehicle parts and accessories increased 8.1% YOY in November to $104 billion, according to the U.S. Bureau of Economic Analysis. Despite a challenging economic environment, the low elasticity of many parts and accessories demand has fostered sector optimism.

The pace of M&A activity has been undeterred by broader economic headwinds and has nearly mirrored the record level of activity experienced in 2021. In 2022, 393 transactions were announced or completed, largely driven by private equity buyers bolstering their platforms through add-on acquisitions (46.3% of deals). Despite an uncertain economic climate, the functional nature of many parts and accessories has fueled sustainable growth among aftermarket businesses, which has been reflected in an elevated level of M&A activity.

## Key Sector Trends

The Aftermarket Services segment of the market has continued to capture heightened demand. Financial investors (private equity and family offices) have actively deployed capital across services, ranging from general/mechanical repair to collision to quick lube to car wash—driven heavily by the fragmented nature of these markets. Notably, in September 2022, Trivest Partners and LP First Capital announced the formation of OpenRoad, a platform focused on the Collision Repair market. OpenRoad subsequently acquired four collision repair centers including Car Crafters, Drury and Moss Body Shop, 1st Choice Collision, and Helotes Collision (September, all undisclosed). Car wash providers have also continued to attract buyer interest, with acquirers actively pursuing quality operators. Notably, Mister Car Wash (NYSE:MCW) acquired Top Wash in August 2022 for an undisclosed sum.

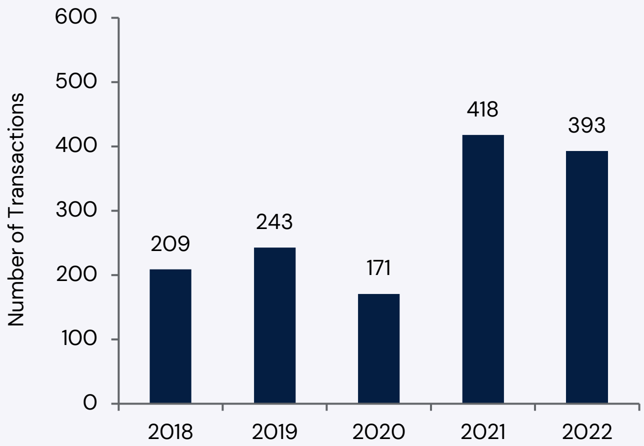
Robust consolidation has also been evident in the Heavy Duty segment as truck aftermarket parts and service providers have continued to garner buyer appetite. FleetPride, continued its acquisition streak in 2022, acquiring Best Deal Spring & Truck Parts, a family-owned business offering services and an expansive inventory of truck parts (October, undisclosed). Platforms have also changed hands, with Gridiron Capital acquiring M&D Distributors from Warren Equity (September, undisclosed).

Moving through 2023, services consolidation is expected to continue at a fervent pace. Adjacent aftermarket service segments with value-added dynamics, such as consumer and commercial vehicle upfitting, are also expected to experience strong demand—benefitting from consumer recreation applications and Commercial end markets.

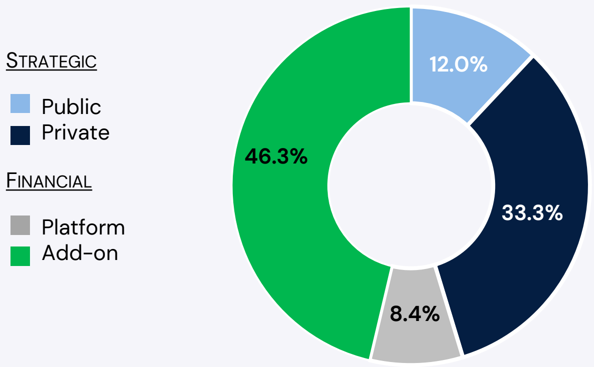
## Yogesh Punjabi, Managing Director

*"There is a strong focus on aftermarket multi-unit retail and service businesses in sectors that remain highly fragmented. In conversations with buyers and investors, we are hearing that there is deep interest across non-discretionary parts and services, as well as multi-unit platforms in sectors that are prime for consolidation and have loyal customers such as mechanical and glass repair, car washes, and branded B2B and B2C dealerships."*

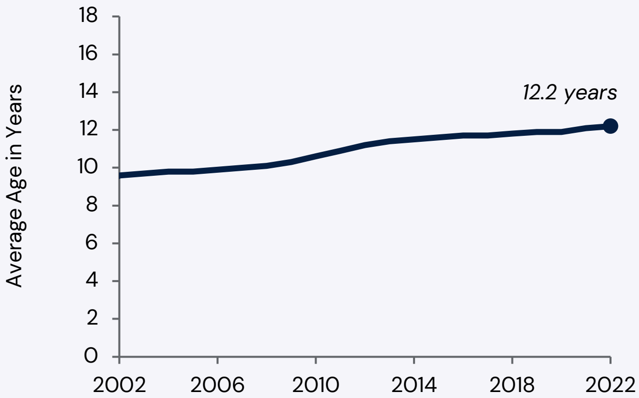
### Vehicle Aftermarket M&A Keeps Pace with Record 2021 Activity



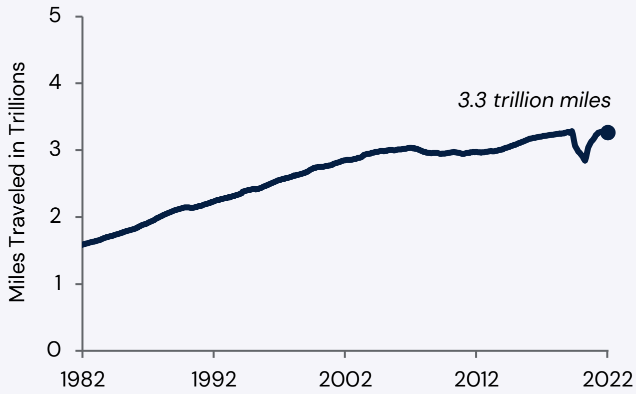

### Sponsors Actively Bolster Sector Platform Holdings




### Average Age of Cars on the Road Rises to 12.2 Years




### Moving 12-Month Total Vehicle Miles Traveled Increases




*Source: U.S. Bureau of Economic Analysis, Bureau of Transportation Statistics, IHS Markit, Hedges & Company, U.S. Federal Highway Administration, Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Vehicle Aftermarket Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 12/27/22 | All American Glass Distributors | PGW Auto Glass | Distributes automotive aftermarket glass. | – | – | – |
| 12/22/22 | Windsor Mold | ABC Technologies (TSX:ABCT) | Manufactures and sells tooling and molded products for the Automotive industry. | $165.0 | 0.6x | – |
| 12/21/22 | Zip Products | Coker Tire | Manufactures and supplies Corvette parts. | – | – | – |
| 12/12/22 | RepairSmith | AutoNation (NYSE:AN) | Provides car repair and maintenance services. | $190.0 | – | – |
| 11/22/22 | Classic Auto Spa | WhiteWater Express | Operates car wash facilities and provides services including detail and ceramic seal. | – | – | – |
| 11/18/22 | Shamrock Auto Body | Classic Collision | Offers auto body repair services. | – | – | – |
| 11/07/22 | Dakota Autoglass | West Edge Partners | Distributes automotive replacement glass. | – | – | – |
| 11/07/22 | Excellence Auto Collision | AutoCanada (TSX:ACQ) | Operates collision centers catering to luxury cars. | – | – | – |
| 11/02/22 | Randy's | Greenbriar Equity, Tailwind Capital | Manufactures and distributes automotive aftermarket parts and accessories. | – | – | – |
| 10/27/22 | BrakeQuip | AGS Automotive Solutions | Manufactures auto parts and provides products including brake, clutch, and adapters. | – | – | – |
| 10/20/22 | TGK/Toscalito Tire & Automotive | Sun Auto Tire & Service | Provides automotive repair, maintenance, and tire services and offers a combined 29 locations. | – | – | – |
| 09/27/22 | Sam & Sons | FleetPride | Provides truck, trailer, and fleet parts and diesel repair services. | – | – | – |
| 09/14/22 | Balar | Industrial Truck & Equipment | Sells truck bodies, hydraulic tools, and customized truck bodies. | – | – | – |
| 09/06/22 | TradeMark Car Wash | Accelerated Brands | Operates a full service car wash that provides wash, detail services, and additional offerings. | – | – | – |
| 09/06/22 | Car Crafters | OpenRoad | Provides collision repair services. | – | – | – |
| 09/01/22 | M&D Distributors | Gridiron Capital | Manufactures and distributes diesel engine parts and components. | – | – | – |
| 08/24/22 | Speedy Oil and Lube | Oil Changers | Provides automotive repair and maintenance services. | – | – | – |
| 08/18/22 | SuperATV | Dorman (Nasdaq:DORM) | Manufactures and sells aftermarket products for ATVs and other powersports. | $589.7 | 2.8x | – |
| 08/02/22 | Dayco | Hidden Harbor | Designer, manufacturer, and supplier of essential engine drive systems. | – | – | – |
| 02/24/22 | JEG's Automotive | Greenbriar Equity Group | Provides aftermarket performance parts, accessories, tools, and race apparel online. | – | – | – |
| 02/23/22 | Tenneco | Apollo (NYSE:APO) | Manufactures automotive OEM components aftermarket ride control/emissions products. | $6,707.9 | 0.4x | 5.1x |

*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Capstone Partners Active and Closed Engagements

CONFIDENTIAL

CORPORATE SALE

AFTERMARKET MAINTENANCE SERVICES & TIRE RETAIL

CONFIDENTIAL

CORPORATE SALE

DIVERSIFIED MOTORCYCLE DEALERSHIP PLATFORM

FIVE STAR GOLF CARS & UTILITY VEHICLES

HAS BEEN ACQUIRED BY

JLAM

CALCULATED RISK MOTORCYCLE GROUP

HAS BEEN ACQUIRED BY

NAVIGANTOAK

SUN DEVIL AUTO

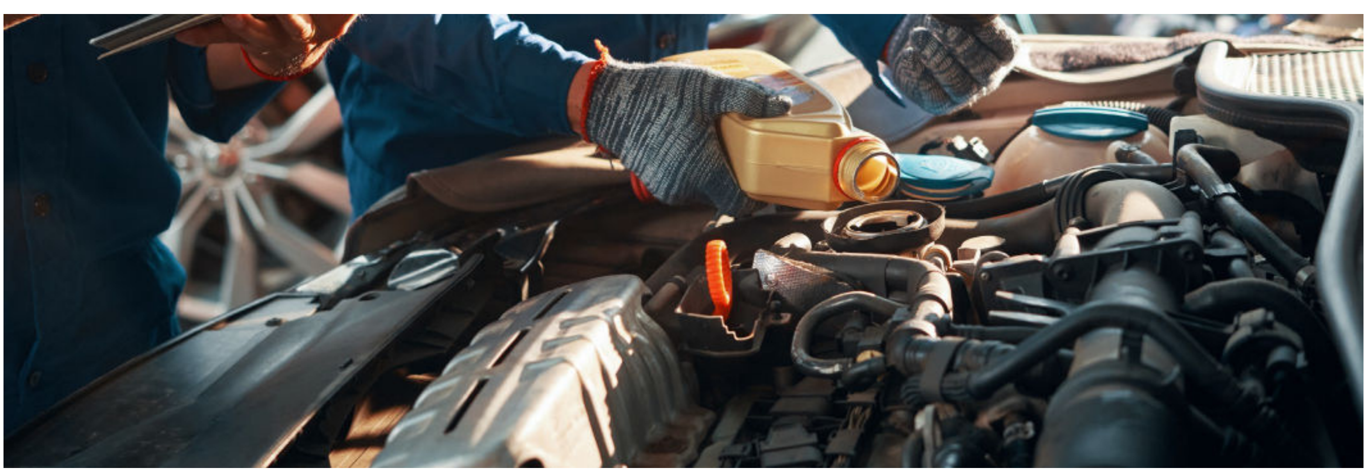
HAS BEEN ACQUIRED BY

GB Auto Service, Inc.
a portfolio company of
GREENBRIAR EQUITY GROUP, L.P.

MORRIS 4X4 CENTER

HAS BEEN ACQUIRED BY

Ecommerce Brands



# Vitamins & Supplements

*Nutritional Products Remain Ingrained in Consumers' Routines*

## M&A Overview & Outlook

Continued prioritization of health & wellness solutions has contributed to steady demand in the Vitamins & Supplements sector amid a tumultuous economic environment. While inflation has severely challenged consumers, personal consumption expenditures have remained robust, rising 7.7% YOY in November, according to the U.S. Bureau of Economic Analysis. Sustained spending on core health and wellness products is expected to continue, as many consumers have ingrained vitamin and supplement usage into their daily routines. Notably, the global Dietary Supplements market is forecast to reach $128.6 billion in 2028, growing at a compound annual rate of 8.7%, according to Fortune Business Insights.[22] As sector participants grapple with an elevated cost environment and economic uncertainty, customer retention is expected to be increasingly emphasized.

M&A activity returned to pre-pandemic levels in 2022 with 82 transactions announced or completed. Strategics continued to lead buyer activity, accounting for 75.6% of 2022 deal volume. In particular, public strategic buyers have aggressively pursued high quality vitamins and supplements providers, comprising 41.5% of transactions. Financial buyers have demonstrated more selectivity through 2022 as lending conditions have deteriorated, largely pursuing leading brands with customer loyalty or manufacturers with an expansive client base and high revenue visibility. However, private equity firms have maintained a steady presence in the space with platform and add-on acquisitions accounting for 13.4% and 11% of total transactions, respectively. Regardless of economic conditions, top brands and manufacturers are expected to continue to garner robust buyer and investor appetite.

## Key Sector Trends

Vitamins & supplements contract manufacturers have drawn sustained interest from the financial buyer universe as investors have sought growing targets with defensible revenue profiles. Notably, Mubadala Capital acquired TruFood Manufacturing, a leading formulator and manufacturer of products including nutrition bars and protein bars (October 2022, undisclosed). Strategic buyers have also pursued targets in the segment to expand capacity and capabilities, evidenced by Sirio Pharma's (SZSE:300791) majority stake acquisition of Best Formulations for an enterprise value of $190 million and 1.6x EV/Revenue (July). Best provides contract manufacturing of nutritional supplements and personal care products and is one of the largest plant-based softgels manufacturers in the U.S., according to a press release.[23]

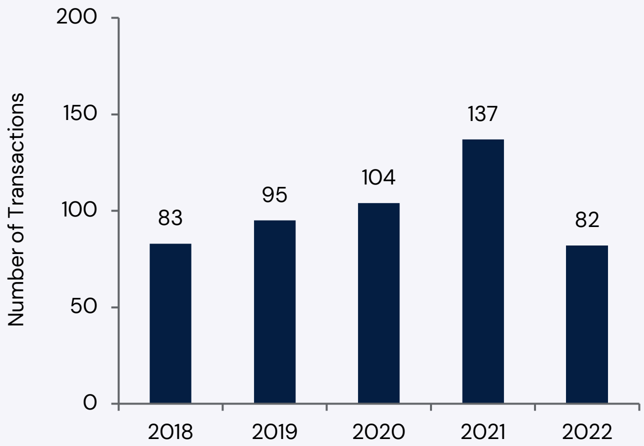
While sector transaction volume declined compared to the record level of deal activity in 2021, M&A valuations have remained healthy through 2022. Transaction multiples from 2019 to 2022 have averaged 11.7x EV/EBITDA with middle market deals (under $500 million in enterprise value) averaging a healthy 10.0x. Key drivers of premium M&A purchase multiples have included omnichannel capabilities, subscription-based models, repeat revenue, or robust production capabilities.

The Women's Health segment has attracted increased investor and buyer interest in recent years as sector players have increasingly sought to expand product offerings through consolidation. Privately-owned businesses in the space with high levels of recurring revenue, direct-to-consumer capabilities, and brand leadership are poised to capture acquirer appetite through 2023.

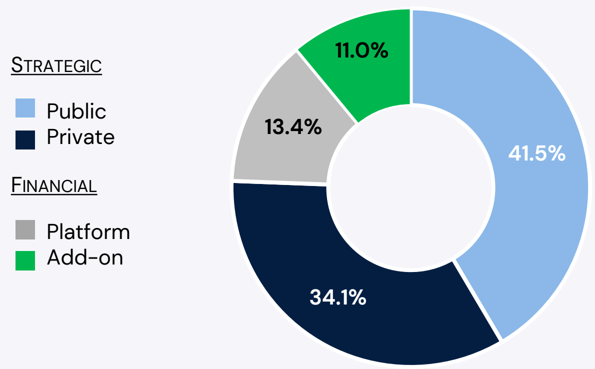
**Lisa Tolliver, Managing Director**

*"Capstone has been extremely active in the Health & Wellness sector and expect buyers to remain keenly interested in growing vitamin & supplement companies, particularly those that are scientifically or clinically-backed, have patented or proprietary formulations, and a strong repeat customer following. Looking to 2023, we predict increased spending in products across hormonal support, bone and joint health, hydration, sleep support, and eye health. We expect the M&A market will continue to be favorable for strong consumer brands and contract manufacturers serving the Health & Wellness market."*

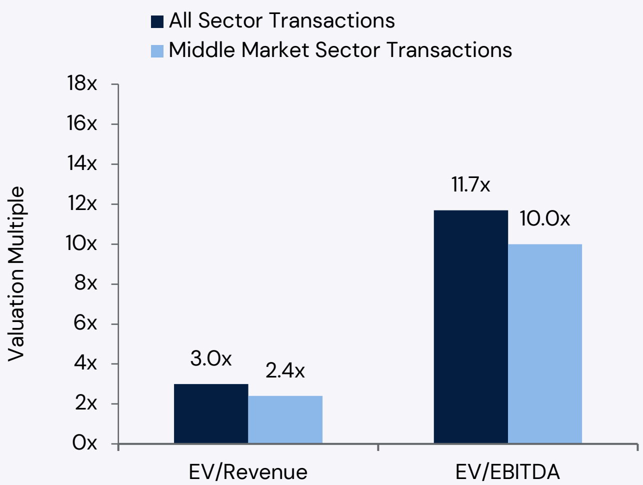
**M&A Volume Declines From Record Levels**



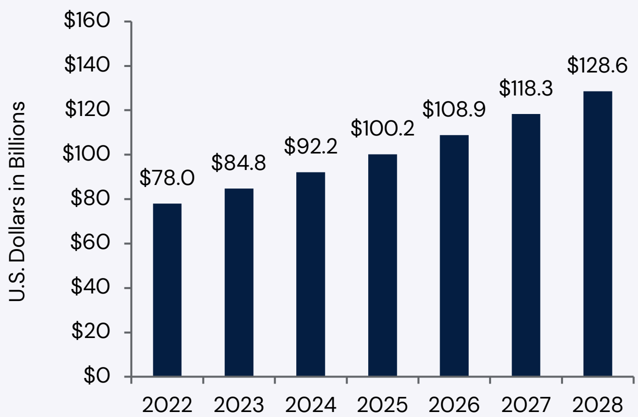

**Public Strategic Buyers Lead Transaction Activity**




**Average M&A Multiples Remain Healthy (2019-2022)**




**Global Dietary Market Expected to Exceed $128 Billion**




*Source: U.S. Bureau of Economic Analysis, Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Vitamins & Supplements Transactions

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV / LTM Revenue | EV / LTM EBITDA |
|---|---|---|---|---|---|---|
| 12/08/22* | Nutrabolt | Keurig Dr Pepper (Nasdaq:KDP) | Provides dietary supplements, hydrated drinks, and energy boosters. | $863.0 | – | – |
| 11/28/22 | Rise Bar/Oola Global | USANA (NYSE:USNA) | Manufactures and sells protein bars; provides direct selling services. | – | – | – |
| 11/17/22 | CAIF | Caldic | Supplies naturally sourced ingredients for industries including dietary supplements. | – | – | – |
| 11/03/22 | Happy Healthy Hippie | Boosted Ecommerce | Offers vegan and plant-based nutrition supplements. | – | – | – |
| 10/21/22 | Clarity Kids Vitamins | J&W Family of Brands | Provides all natural supplements for children. | – | – | – |
| 10/18/22 | TruFood Manufacturing | Mubadala Capital | Offers contract manufacturing services for private label nutrition bars and baked goods. | – | – | – |
| 10/17/22 | Your Super | The Healing Co. (OTCPK:HLCO) | Produces and sells plant-based organic superfood and protein mixes. | $15.6 | – | – |
| 09/29/22 | Nutraceutical | Smart for Life | Manufactures and distributes nutritional supplements to health and natural food stores. | – | – | – |
| 09/12/22 | Adaptive Health | Nutrisystem | Manufactures and distributes science-based nutritional health supplements and products. | – | – | – |
| 08/10/22 | Lavva | Next in Natural | Produces plant-based super foods. | – | – | – |
| 07/29/22 | The Quit Company | One Puff | Manufactures and distributes herbal tea and supplement for smokers. | – | – | – |
| 07/19/22 | OWYN | Purchase Capital | Provides plant-based nutritional products. | – | – | – |
| 07/07/22 | Best Formulations | Sirio Pharma (SZSE:300791) | Offers contract manufacturing of nutraceuticals, dietary supplements, and dietary teas. | $190.0 | 1.6x | – |
| 06/01/22 | Youtheory | Jamieson (TSX:JWEL) | Provides a comprehensive product portfolio of premium supplements. | $400.2 | 1.8x | 10.0x |
| 04/01/22 | Billionaire Brands | Star8 (OTCPK:STRH) | Offers amino acids for nutritional purposes, whey protein, and dietary and nutritional supplements. | – | – | – |
| 03/23/22 | Noble Foods Nutrition | EMPWR | Manufactures nutrition and energy bars. | – | – | – |
| 03/17/22 | TTFM | Pure for Men | Produces a premium fiber supplement to support digestive health. | – | – | – |
| 03/03/22 | Amplifei | LaCore | Provides nutritional supplements for athletes and fitness enthusiasts. | – | – | – |
| 02/21/22 | Vital Proteins | Nestlé Health Science | Offers organic and nutritional food and supplements including protein powders. | – | – | – |
| 01/27/22 | Snoooze | Galerie | Provides natural sleep drinks. | – | – | – |
| 01/24/22 | MenoLabs | Amyris (Nasdaq:AMRS) | Provides all-natural supplements to relieve menopause and perimenopause symptoms. | CF | CF | CF |

** = minority stake; Blue indicates Capstone-advised transaction; CF=confidential*
*Source: Capital IQ, PitchBook, FactSet, and Capstone Partners*

# Select Capstone Partners Active and Closed Engagements

**CONFIDENTIAL**

CORPORATE SALE

E-COMMERCE VITAMINS & SUPPLEMENTS

**CONFIDENTIAL**

CORPORATE SALE

OMNI-CHANNEL HEALTH & WELLNESS COMPANY

**CONFIDENTIAL**

CORPORATE SALE

WOMEN'S HEALTH & BEAUTY SUPPLEMENTS

MENOLABS

HAS BEEN ACQUIRED BY

amyris

Natures Craft

HAS BEEN ACQUIRED BY

AN UNDISCLOSED STRATEGIC BUYER

GYMLAUNCH

PRESTIGE LABS

HAS RECAPITALIZED WITH

AMERICAN PACIFIC GROUP

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Common Goals. Uncommon Results.